

# The Economic Impact of Buy Now Pay Later in Australia

June 2022



Australian  
Finance  
Industry  
Association

**RFI**Global



BIS OXFORD  
ECONOMICS

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## AFIA BNPL Code Signatories



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# Foreword

The way we purchase goods and services, manage our money, and transact across our economy has fundamentally changed over the past few years. The COVID-19 global pandemic did not cause these changes, but in many ways fast-tracked them, and rapidly advanced the evolution of our digital economy.

Digitisation will only keep accelerating. Emerging and evolving technologies are creating opportunities for disruptive business models and new product and service offerings. Customers want simple, fast, frictionless ways of paying for their goods and services. Businesses want more value from e-commerce solutions.

Regulators globally are realising traditional finance and credit products need re-evaluation to determine how best to provide proportionate, scalable and targeted regulatory frameworks that balance payments innovation, consumer choice, flexibility and interoperability, while delivering high standards of consumer protection. Governments globally are realising the importance of payments and financial services efficiency to economic growth, financial wellbeing and social participation.

AFIA recognises innovation, competition, market efficiency, economic growth and consumer protection are interrelated and, therefore, must be addressed collectively. An informed understanding of the Buy Now Pay Later (BNPL) sector is critical to ensuring we identify appropriate responses that will create the conditions for a payments and financial services ecosystem fit for the future.

Our research demonstrates the BNPL sector provides benefits to consumers, businesses, and our economy. Choice is definitely the greatest benefit – choice for businesses in terms of the payment options they can provide their customers and how they elect to operate their business, and choice for consumers in how and when and at what cost they can pay for their goods and services.

However, like many things in life, there are complexities within the aggregated results, and the benefits at a system-level may not always be the experience at an individual level. From the beginning, the BNPL sector has worked hard to meet emerging community expectations, and the development of AFIA’s BNPL Code of Practice is evidence of this customer focus.

The consumer protections in the BNPL Code include upfront and ongoing suitability checks, product features to restrict further use if a payment is missed, product limitations to prohibit use for certain goods and services that if misused could be harmful such as gambling services or firearms, and support for customers experiencing financial difficulties, including access to external dispute resolution if a complaint cannot be resolved by the BNPL provider and hardship arrangements.

I would like to thank our research partners – RFI Global and BIS Oxford Economics – for their skill, knowledge, energy and hard work, which has enabled us to create this report. Thank you also to our Code signatories, without their input we would not have been able to deliver the depth of insight available in this report.

AFIA’s purpose is to champion a thriving finance industry into the future, always acting in the interests of customers and communities.

To succeed, we must work collaboratively with our members and stakeholders and we must be forward thinking, so the problems we solve and the innovations we make today make sense for tomorrow.

I hope our research provides a basis for a more informed understanding of the BNPL sector and its’ contribution to our economy and society.

Along with feedback from consumers and businesses as well as their representatives, the results of our research will importantly inform the BNPL sector about what further action may be needed to ensure the BNPL Code continues to be world-first and world-class.



**Diane Tate**  
Chief Executive Officer,  
Australian Finance Industry Association



# Executive Summary

The payments sector is undergoing rapid evolution with the continued growth of e-commerce, digital payment technologies and changing consumer behaviour accelerated by the COVID-19 global pandemic. This includes a shift in consumer preferences away from traditional credit options and towards alternative products that offer convenience, interest-free finance and better cashflow management opportunities.

BNPL enables mostly small, short-term purchases, most commonly repaid in interest-free instalments, or larger purchases such as solar systems or other home improvements. This means that a consumer can purchase goods or services without paying the full value upfront and with no interest charges if repayments are made on time. Merchants benefit from offering BNPL through the introduction of new customers, increased revenue and decreased operating costs.

BNPL is a competitive sector, evidenced by the presence of low barriers to entry, low switching costs, available substitutes, and declining merchant fees. Over the past few years, the nascent sector has experienced impressive growth, as both consumers and merchants have realised its benefits and incorporated it into the payments ecosystem. In 2021 BNPL transactions represented 0.74 percent of consumer purchases in Australia by volume and 1.22 percent by value.<sup>1</sup> The online focus of BNPL transactions is evident with BNPL representing 3.71 percent of consumer online payments by volume and 2.12 percent of online payments by value in 2021.<sup>2</sup>

Consumer and merchant confidence in BNPL has been supported by the launch on 1 March 2021 of a Code of Practice (the Code) by the eight leading BNPL providers in conjunction with the Australian Finance Industry Association (AFIA). This self-regulatory framework acts as a valuable model for overseas markets given Australia's early innovation in, and adoption of, BNPL.

## The economic impact of BNPL

BIS Oxford Economics has used two separate approaches to measure the economic impact of BNPL for Australia.

Firstly, using economic contribution metrics, BIS Oxford Economics measured the role of BNPL in supporting national employment and GDP. In FY21, allowing for flow-on effects, BNPL helped create or retain some 99,200 jobs throughout Australia and contributed \$14.3 billion in Gross Domestic Product (GDP) to the Australian economy.

Secondly, using a welfare economics approach, BIS Oxford Economics measured the combined consumer and merchant surplus benefits, or 'net social surplus'. Here BNPL provides a good illustration of 'revealed preference' in that merchants and consumers have continued to adopt it precisely because it provides advantages to other payment alternatives and the benefits calculated in this report reflect this.

Using these metrics, and after allowing for costs, BNPL has an overall net positive impact to the Australian economy in FY21 of \$1.256 billion driven by:

- Credit card and other interest and fee savings and budgeting benefits to consumers.
- Growth in revenue and associated profits for merchants.
- Cost efficiencies for merchants.

## Consumer benefits

The BNPL payments model provides consumers with several key benefits, including consumption smoothing, budgeting support, a convenient lower cost alternative to traditional credit and access to online store directories.

As a result, the number of BNPL users in Australia with active accounts has grown, reaching approximately 5.9 million active accounts in the period 1 July 2021 to 30 September 2021<sup>3</sup>, responsible for more than \$11.9 billion in transactions in the FY21 period.<sup>4</sup> It is estimated BNPL users in Australia gained \$264 million in gross benefits from using BNPL services in FY21 and \$68 million in net benefits after subtracting account fees, administration fees, late fees, net consumer loss from other sources and other costs.

These benefits were driven by savings in interest and fee costs (relative to credit cards), surcharge savings and the benefits to consumers of delaying payment, allowing for more effective budgeting and providing a better reflection of consumer preferences.

## Merchant benefits

As at 30 June 2021, BNPL was accepted by more than 135,400 Australian businesses,<sup>5</sup> helping them to generate new revenue, gain deeper insights and a better understanding of customer preferences and transaction activity, and decrease operating costs - with small businesses gaining greater benefit from BNPL.

BIS Oxford Economics has calculated BNPL delivered nearly \$2.8 billion in gross benefits to merchants from using BNPL services in FY21 and nearly \$1.2 billion in net benefits. This included creating \$2.1 billion in new revenue for merchants through new customer acquisition, increased basket sizes and increased customer satisfaction and retention.

In addition, merchants accepting BNPL enjoyed \$626 million in cost efficiencies in FY21 from lower customer acquisition and service costs, lower fraud rates and lower marketing costs.

## High level methodology

This exercise to estimate the full economic impact of BNPL in Australia considered the FY21 period only and uses data points on how BNPL affects consumers as well as businesses and any increases in merchant revenue and employment and the flow-on effects of BNPL to the wider economy.

The exercise entailed:

- Quantitative surveys of over 2,750 consumers and over 700 merchants conducted by RFI Global across December, January and February 2022;
- Data collation from the RFI Australian Payments Diary which in 2021 and 2022 surveyed almost 13,000 consumers;
- Data collection from the eight BNPL Code signatories;
- In-depth interviews conducted with consumers and merchants using any types of BNPL to understand how they engage with BNPL and the positive and negative impacts for them or their business respectively; and
- Economic modelling conducted by BIS Oxford Economics of the direct and flow-on effect of BNPL, leveraging the survey output, BNPL providers' proprietary information collected in January and February 2022 in association with AFIA and public information.

<sup>1</sup> RFI Global, Australian Payments Diary, Base: All transactions (2021: n = 12,973)

<sup>2</sup> *Ibid.*

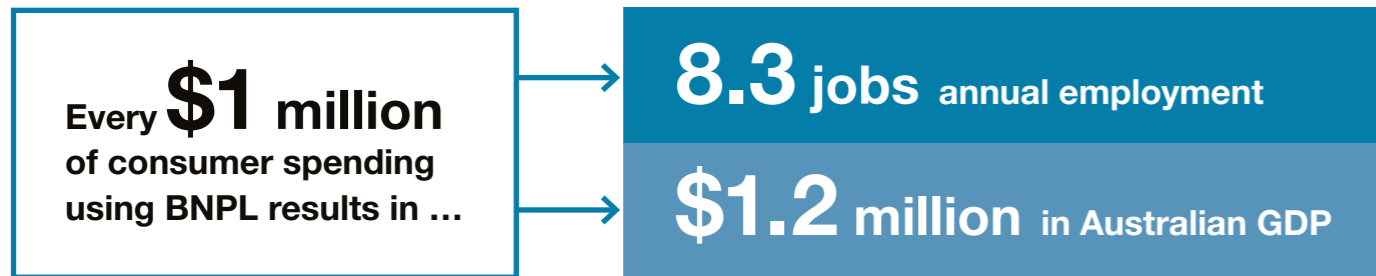
<sup>3</sup> Data provided to AFIA for the Code Compliance Committee by the eight Code signatories. Active accounts are defined as those accounts where the customer has made at least one transaction over the past 12 months.

<sup>4</sup> AFIA BNPL Provider Data collected by survey by BIS Oxford Economics, January 2022

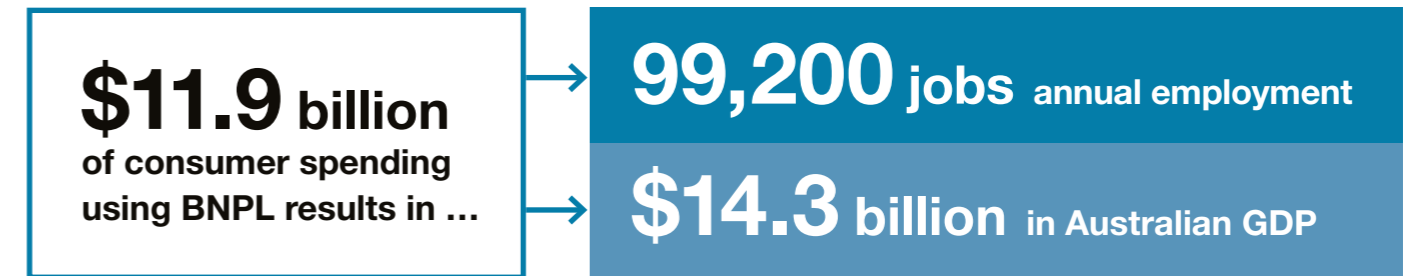
<sup>5</sup> Data provided to AFIA for the Code Compliance Committee by the eight Code signatories, for the period ending 30 June 2021.

# The Economic Impact of BNPL in Australia

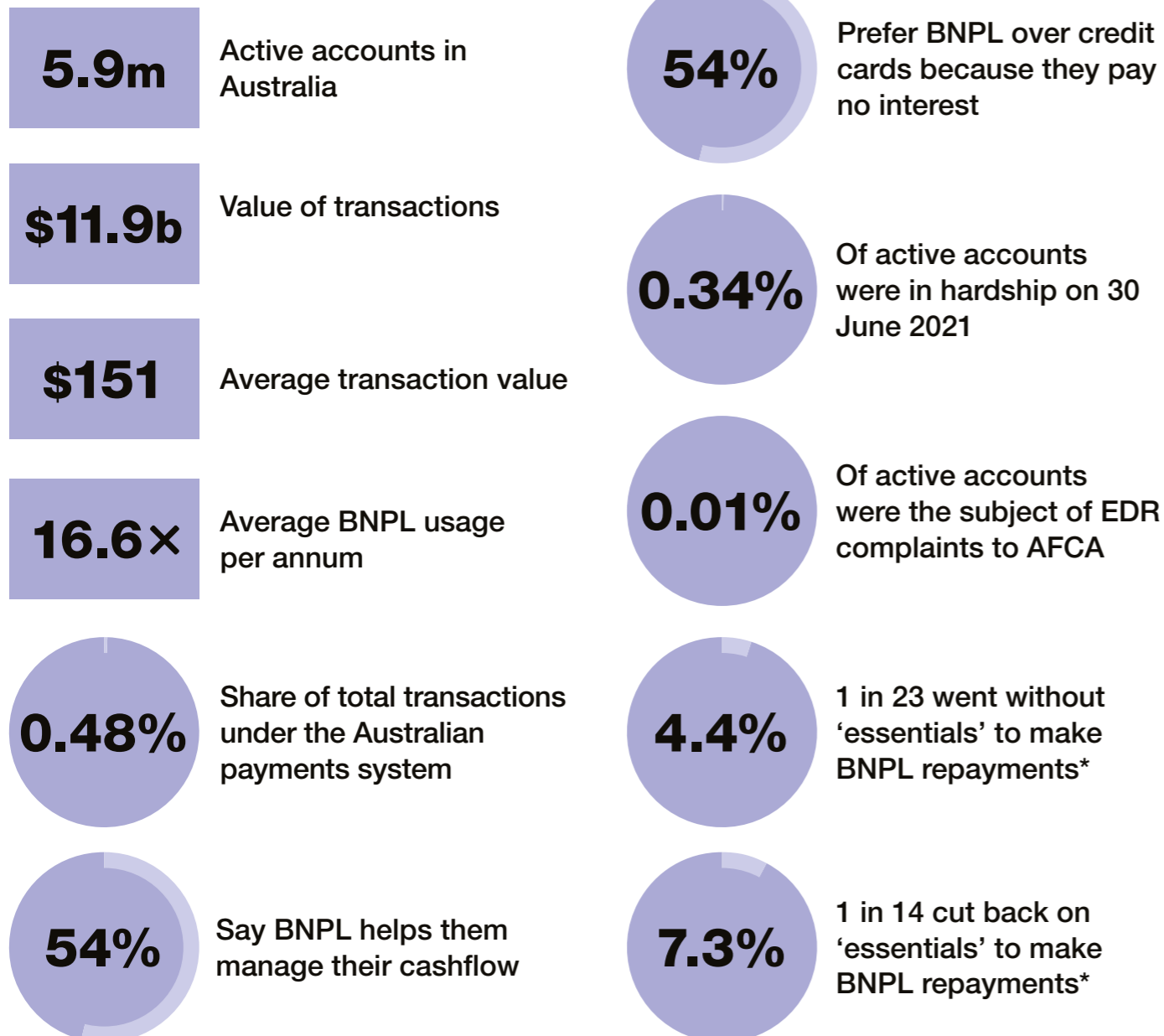
## Summary of findings



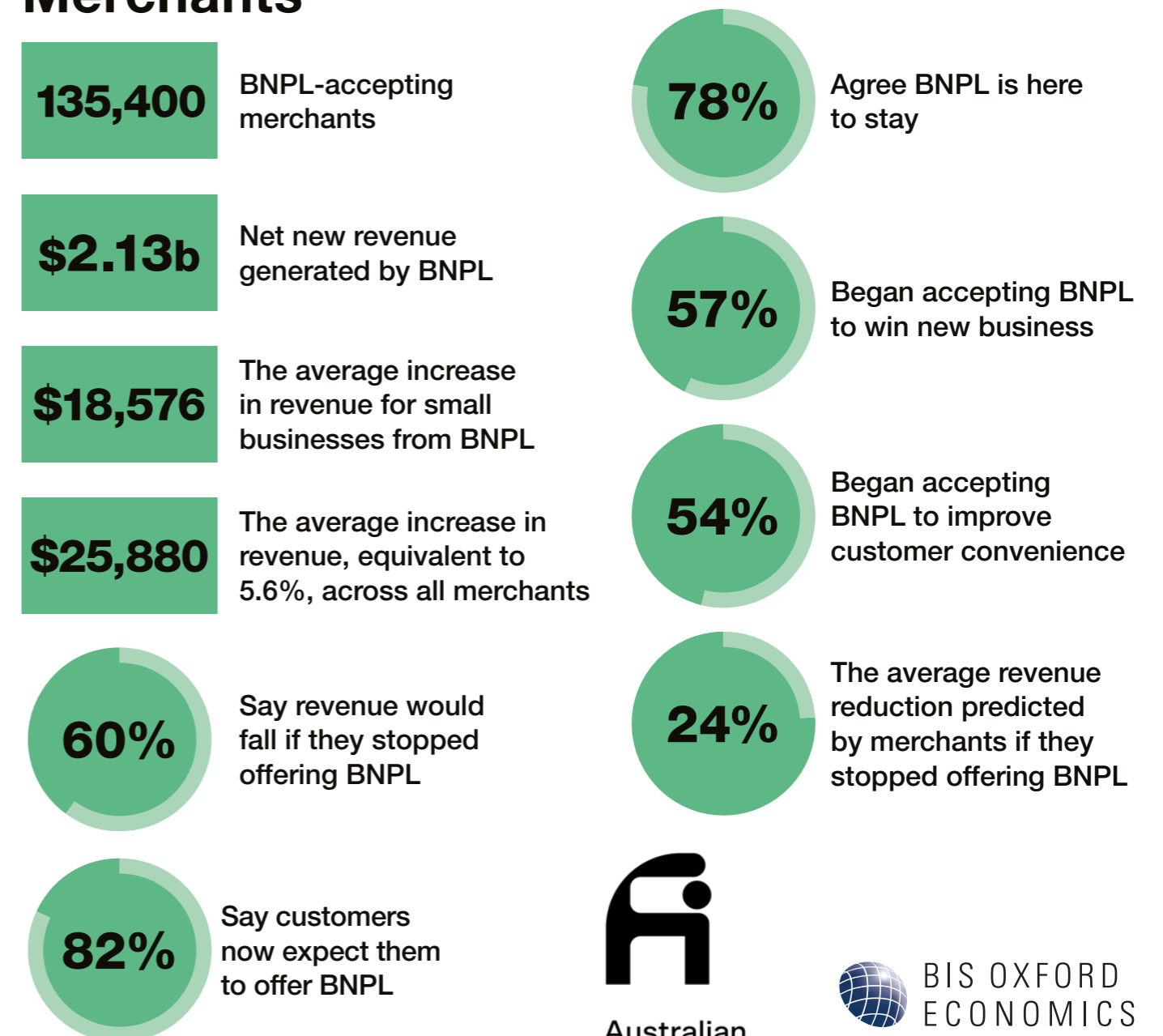
### FY21



## Consumers



## Merchants



\*The definition of 'essentials' is unique to each individual and changes with age and over time.

Net estimated economic welfare benefits attributed to BNPL were \$1.26 billion, with consumers realising net benefits of \$68 million by making purchases with BNPL, and merchants offering BNPL gaining \$1.19 billion in net benefits by offering BNPL.

Data is for the FY21 or CY21 periods and in A\$ unless otherwise specified. Please refer to the Economic Impact of BNPL in Australia Report, June 2022, for details.

# BNPL is a rapidly growing option in the payments ecosystem

**38%**

As of March 2022, 38% of Australians had used BNPL at least once<sup>6</sup>

**94%**

Of Australians are aware of at least one BNPL provider<sup>7</sup>

**5.9 million**

Active BNPL accounts in Australia<sup>8</sup>

## BNPL is an example of Australian innovation

The Australian payments industry has been fertile ground for the introduction of new technologies in recent years. The use of traditional payments, such as cash or cheques has been steadily declining, as has credit card usage.

Reserve Bank data for the period March 2021 to March 2022 shows a 2.0 percent decrease in the number of personal credit card accounts to 12.39 million compared to the prior corresponding period and a 9.2 percent decrease from two years ago.<sup>9</sup>

Users have transitioned to digital payment methods, such as cards, account-to-account transfers, and online payment providers. Reserve Bank data showed consumer use of mobile wallets is growing strongly, accounting for 8 percent of in-person card transactions in 2019.<sup>10</sup> The COVID-19 global pandemic has accelerated this trend.

New payment services have arisen, driven by rapid changes in technology and consumer expectations of better, more secure, and faster ways of executing payments. BNPL originated in Australia and provides benefits to both consumers and merchants. It is a

payment solution allowing consumers to pay for things they want and need over time using their own money, and a way for merchants to benefit from cashflow smoothing, new customer acquisition and increased revenue, amongst other services.

BNPL is unlike credit cards, where the benefits of additional services, including loyalty points, mainly accrue to the consumer, in that it delivers significant benefits to merchants.

BNPL is not 'payday lending' or online wage or salary advance products. These products are not used to facilitate specific transactions for the purchase of goods or services and do not involve a contract between the merchant and the finance provider. These products also have high fees and/or interest rates.

For the avoidance of doubt, the following are not considered a BNPL product even if they are marketed or described as such: products or services offered to persons or strata corporations that are predominantly for a purpose that is not a consumer purpose; personal loans, mortgages or consumer leases; short term borrowing where a pay day lender typically provides small cash loans to individuals that are repaid at their next pay date; or any earned wage or salary access

<sup>6</sup> RFI Global Australian BNPL Council, March 2022

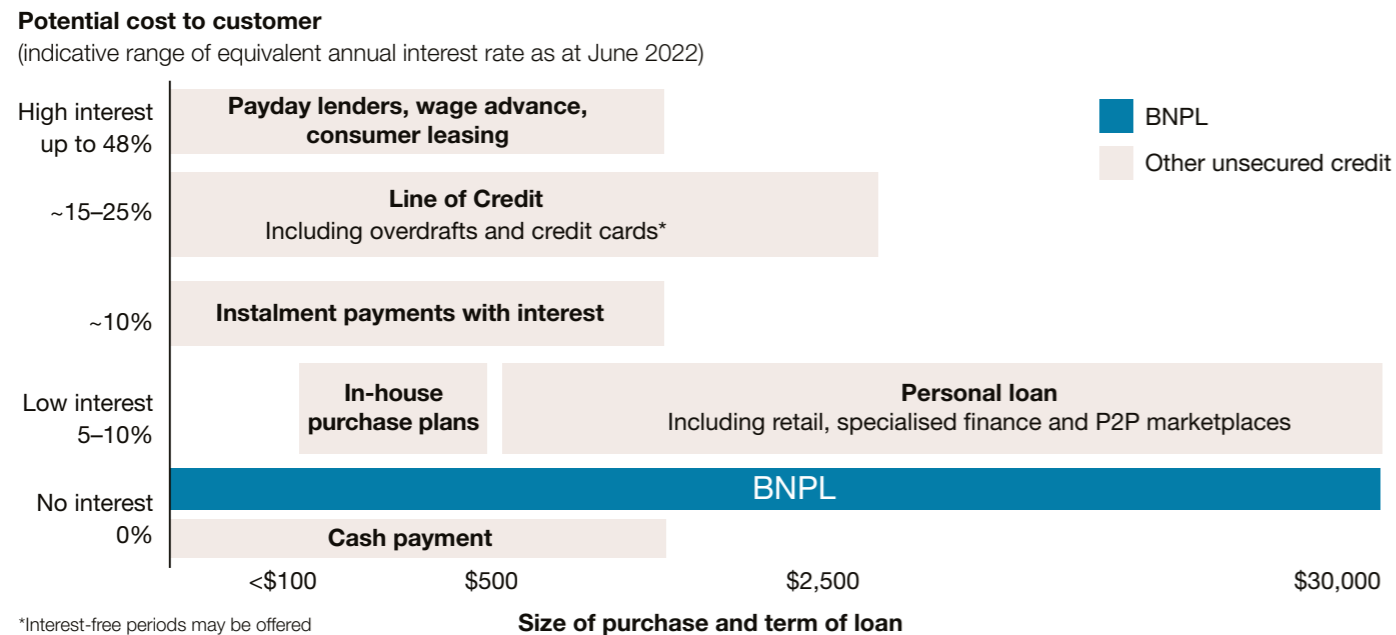
<sup>7</sup> Survey work conducted by RFI Global Australian BNPL Council, December 2021. Base: All consumers (Mar-17: n=2,014, Nov-17: n=2,049, Mar-18: n=2,005, Jul-18: n=2,003, Nov-18: n=2,008, Mar-19: n=2,055, Jul-19: n=2,014, Nov-19: n=2,015, Mar-20: n=2,006, Jul-20: n=2,016, Nov-20: n=2,105, Mar-21: n=2,034, Jun-21: n=2,045, Sep-21: n=2,045, Nov-21: 1,002, Mar-22: n=1008)

<sup>8</sup> Data provided to AFIA for the Code Compliance Committee by the eight Code signatories. Active accounts are defined as those accounts where the customer has made at least one transaction over the past 12 months.

<sup>9</sup> Reserve Bank of Australia (RBA), C1 Credit and Charge Cards – Seasonally Adjusted, released 9 May 2022, excludes commercial cards. Year-on-year change is March 2021 to March 2022, change from 2 years ago is March 2020 to March 2022.

<sup>10</sup> Reserve Bank of Australia, Payments System Board Annual Report, 2021, pp. 22-24.

**Figure 1: BNPL enables purchases, most commonly repaid in interest-free instalments, without security**



arrangement, where a lender has an arrangement with an employer to give an employee access to an amount they have earned during a pay period in advance of the normal payment date.

BNPL is similar to the ‘lay-by’ instalment payments traditionally offered at the point of sale by retailers in the past. However, these ‘lay-by’ services were offered by the retailer and the transaction and financial risk were carried by that retailer.

BNPL enables small, short-term purchases as well as some larger purchases, such as solar power systems, white goods, medical and education services, and home improvements over longer terms, and is most commonly repaid in interest-free instalments. However, unlike traditional ‘lay-by’ services, a BNPL user receives their purchase immediately and the merchant is paid up front by the BNPL provider. This means that consumers can purchase goods or services or install a solar power system without paying the full value upfront and with no interest charges if repayments are made on time. In most cases, customers use a mobile app to access these services with repayments drawn from a customer’s linked debit card, bank account or less frequently, other payment methods, such as a credit card.

The advantages of avoiding interest payments and/or delaying immediate cash payment has tangible benefits to cost and budget-conscious consumers that other forms of payments do not offer.

The advantages of incremental sales, increased average order values, the ability to attract new customers, the provision of marketing support, reduced fraud and bad debt has tangible benefits for merchants that other forms of payments do not offer.

The evolution of the BNPL sector should be viewed within this context. BNPL has become a highly valuable tool to both consumers and merchants, and a viable alternative to traditional payments products in the highly competitive payments ecosystem.

Australia has led the way globally in BNPL payment adoption. There were approximately 5.9 million active accounts in the period 1 July 2021 to 30 September 2021,<sup>11</sup> at which time the population of Australia aged between 18 and 89 years totalled 19.8 million people.<sup>12</sup> It should be noted the number of individual BNPL customers will be lower than 5.9 million because some people have an active account with more than one BNPL provider. RFI Global research shows the proportion of adult Australians who have used BNPL increased from 32 percent in March 2021 to 38 percent in March 2022.<sup>13</sup>

11 Data provided to AFIA for the BNPL Code Compliance Committee by the eight Code signatories, January 2022.  
12 ABS, National, State and Territory Population, September 2021, released March 2022. See <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/latest-release>  
13 RFI Global Australian BNPL Council, March 2022

**Consumers are becoming more conscious about managing their money**

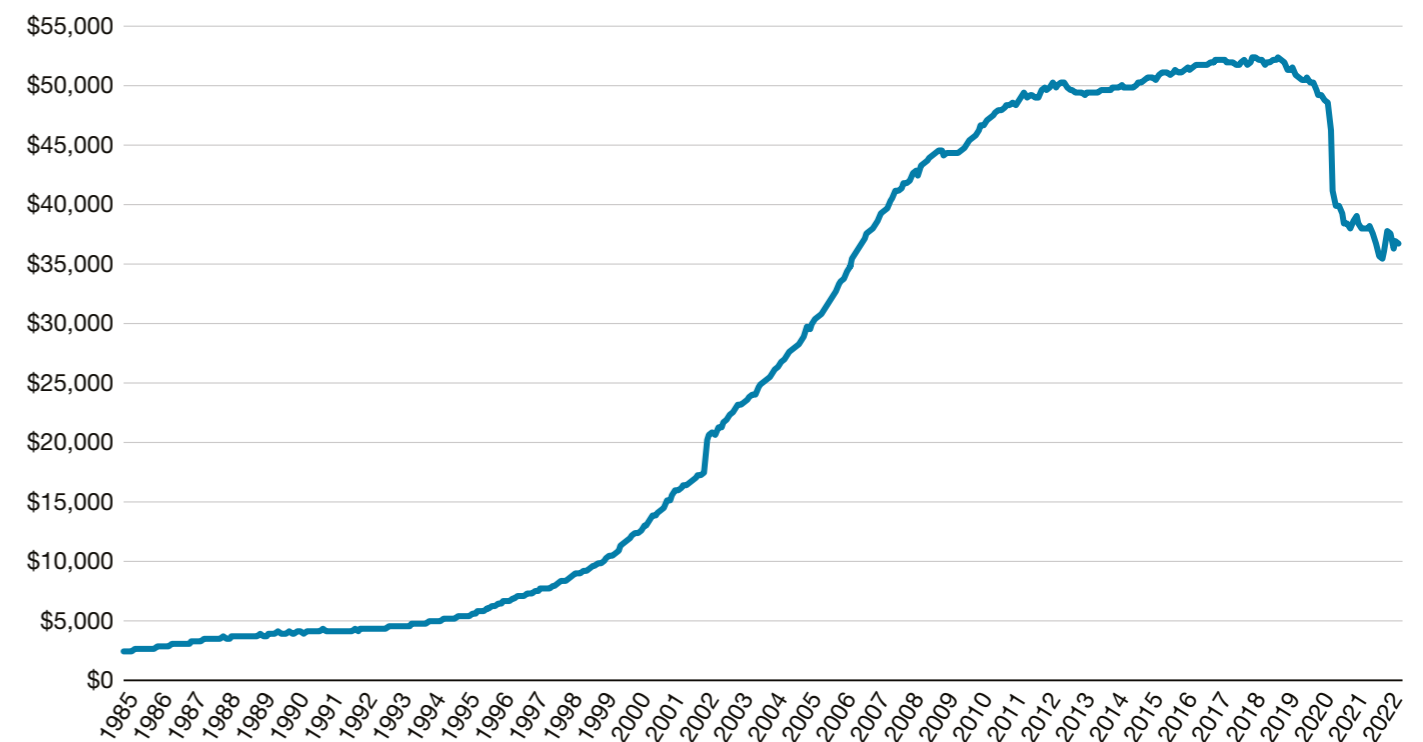
The financial position of Australian households improved over the 12 months to March 2021, during which Australians’ financial wellbeing increased by 7.8 percent to a new record score of 51.1 (on a scale of 0 to 100) marking the highest level and largest year-on-year increase recorded since 2017.<sup>14</sup>

The continued high level of financial wellbeing is due partly to accumulated saving balances that remain elevated compared to pre-pandemic levels – with the median savings balance in December 2021 being 42 per cent higher than December 2019.<sup>15</sup> The Reserve Bank of Australia estimates total additional household savings during the COVID-19 global pandemic amounted to more than \$200 billion.<sup>16</sup>

The increased level of household savings represents action by Australians to manage the current economic situation, including COVID-19 related uncertainties, rising inflation and speculation about rising interest rates. Without doubt, government fiscal stimulus, subsidies and support initiatives have cushioned the worst impacts of the economic downturn caused by the COVID-19 global pandemic.

Australians took the opportunity to pay down almost one third of their combined average credit card debt during the early stages of the COVID-19 global pandemic with the cumulative value of outstanding credit and charge card balances declining by well over \$9 billion from March 2020 but stalling from the end of calendar 2020.<sup>17</sup>

**Figure 2: Average value of credit and charge card total outstanding balances, Australia (A\$ millions)**



14 The Melbourne Institute of Applied Economic and Social Research and The Commonwealth Bank of Australia, Australian Consumer Financial Wellbeing Report, Quarterly Update, December 2021  
15 Ibid  
16 Reserve Bank of Australia, Statement on Monetary Policy, February 2022  
17 Reserve Bank of Australia, C1 Credit and Charge Cards – Seasonally Adjusted, released 9 May 2022, monthly, excludes commercial cards

The BNPL sector is growing rapidly, but is still in its infancy

**0.48%**

The volume of transactions processed under the Australian payments system in FY21 that were made using BNPL was 0.48%. (0.08% by value).<sup>18</sup>

**0.74%**

The volume of consumer purchases and payments captured in 2021 that were made using BNPL was 0.74% (1.22% by value).<sup>19</sup>

**3.71%**

The volume of consumer online payments in Australia in 2021 that were made using BNPL was 3.71% (2.12% by value).<sup>20</sup>

The BNPL sector in Australia has shown steady growth and the COVID-19 global pandemic and accompanying rise in e-commerce over the last few years, combined with BNPL's strong online focus, have acted to accelerate BNPL usage.

BNPL payment adoption is projected to record a 24 percent compound annual growth rate (CAGR) during 2021-2028, with gross merchandise value increasing from \$10.2 billion in 2020, to \$72.5 billion by 2028.<sup>21</sup>

The annual reports of ASX-listed BNPL companies indicate the volume of transactions grew by around 55 percent during 2019-20 and tripled over the previous two financial years.<sup>22</sup>

However, BNPL accounts for a very small proportion of overall consumer spend. According to RFI Global's Annual Australian Payments Diary, just 0.74 percent by volume (1.22 percent by value) of purchases and payments captured within the Diary were paid for using BNPL, rising to 3.71 percent by volume for consumer online payments, and 2.12 percent by value.<sup>23</sup>

Further illustrating this point, analysis of RBA data in conjunction with data supplied for this study by the BNPL providers (Provider Data) for FY21, indicates BNPL transactions accounted for less than half of one percent (0.48 percent) of all transactions processed under the Australian payments system. In terms of value, BNPL accounted for only 0.08 percent of transaction values, as illustrated in the table below.

Figure 3: BNPL as proportion of all transactions and value processed during FY 2021<sup>24</sup>

Payment type	Volume of Transactions (billions)	Share of Total Transaction Volume (percent)	Value of Transactions (A\$ billions)	Share of Total Transaction value (percent)
Credit card	3.09	19.15%	315.10	2.06%
Debit card	8.89	55.13%	428.07	2.80%
Cheques	0.04	0.23%	376.57	2.47%
Credit transfer	2.31	14.35%	9,617.87	62.99%
Debit transfer	0.96	5.94%	3,756.82	24.61%
New Payments Platform	0.76	4.72%	761.78	4.99%
BNPL*	0.08	0.48%	11.90	0.08%

\*Based on data reported by the eight BNPL providers that are Code signatories who are estimated to account for nearly 95 percent of the Australian BNPL market.

18 Based on Reserve Bank of Australia Payments Data, November 2021 and data reported by the eight BNPL providers that are Code signatories.

19 RFI Global, Australian Payments Diary, Base: All transactions (2021: n = 12,973)

20 Ibid.

21 Research and Markets, "Australia Buy Now Pay Later Market Report 2021: BNPL Payment Adoption to Grow by 24 percent to 2028", September 23, 2021.

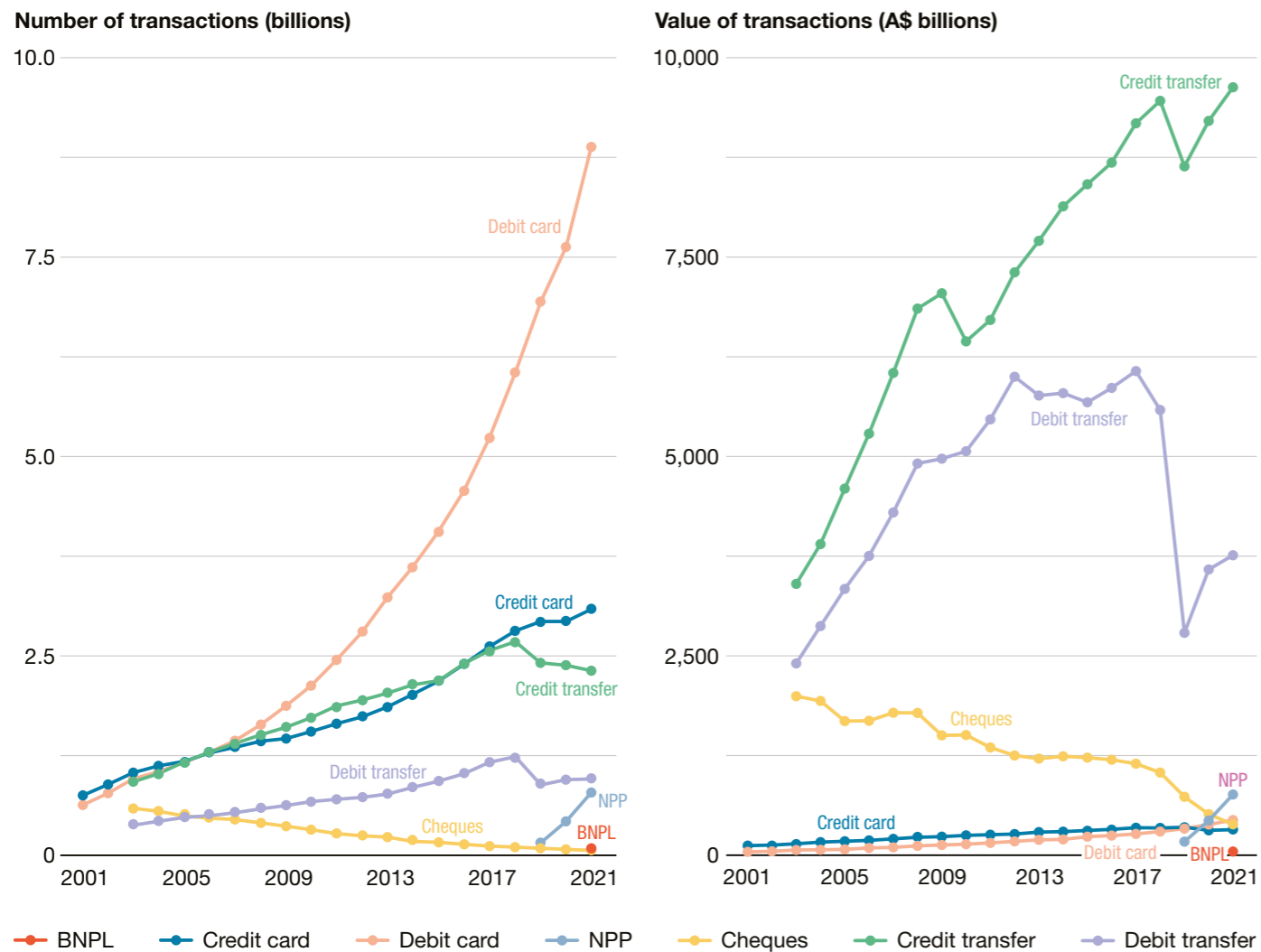
22 Fisher, Chay; Holland, Cara; and West, Tim, "Developments in the Buy Now, Pay Later Market", RBA Bulletin, March, 2021, p. 60.

23 RFI Global Australian BNPL Council – December 2021. Base: All consumers (Mar-17: n=2,014, Nov-17: n=2,049, Mar-18: n=2,005, Jul-18: n=2,003, Nov-18: n=2,008, Mar-19: n=2,055, Jul-19: n=2,014, Nov-19: n=2,015, Mar-20: n=2,006, Jul-20: n=2,016, Nov-20: n=2,105, Mar-21: n=2,034, Jun-21: n=2,045, Sep-21: n=2,045, Nov-21: 1,002).

24 Based on Reserve Bank of Australia Payments Data, November 2021 and data reported by the eight BNPL providers that are Code signatories.



Figure 4: Number and value of annual transactions for different payments methods<sup>25</sup>



While BNPL has increasingly become the payment method of choice for some consumers (and many online purchases), overall BNPL platforms are still in their infancy and represent a very small proportion of the number and value of transactions within the overall Australian payments system. This is evident when compared to other payments methods, as shown in the figure above.

### Merchant testimonial

“Quality dental care can at times stretch the budget, and if ignored dental problems can be exponentially more expensive to treat over time. Openpay allows our patients to attend to their dental health when it’s actually needed with the convenience of no interest repayments. This is a crucial benefit in minimising the long term financial and health burden on our patients.”

Smile Solutions, Melbourne

<sup>25</sup> Based on Reserve Bank of Australia Payments Data, November 2021 and data reported by the eight BNPL providers that are Code signatories  
 Note: As the BNPL estimates from the RBA were provided for FY21, and in order to make a proper comparison, data points from the RBA's payments system data have been aggregated by financial year.

### The growth and diversity of BNPL products and services enhances consumer choice

The BNPL sector includes a broad range of business models so customers wanting a BNPL option can choose the right one for them depending on their payment preferences, purchase type and personal circumstances.

While most BNPL providers focus on lower value purchases, others offer BNPL for higher value items such as solar, home improvements, furniture and appliances, with a maximum purchase between \$10,000 and \$30,000.

Providers conduct suitability assessments proportionate to the value of the purchase before a consumer can make a purchase.<sup>26</sup> The proportionality and range of both upfront and ongoing suitability assessments used by BNPL providers is an important consumer benefit, especially in the context of regular usage, with our data showing over 44 percent of BNPL users use BNPL at least on a monthly basis.<sup>27</sup>

Provider business models also differ, for example, some providers do not charge any fees other than those that can be avoided by on time payments, while some providers offer longer terms and charge a regular subscription or service fee. Some models enable consumers to make purchases using a ‘virtual card’ with merchants that accept Visa or Mastercard card payments.

The range of BNPL offerings means consumers have the flexibility to select the business model that best suits their purchasing needs and preferences.

### Technology enables delivery of an experience that meets consumer requirements

Technology has had a revolutionary impact on the finance industry. Finance providers, including BNPL providers, that leverage technology such as artificial intelligence (AI), machine-learning models and advanced analytics, can determine the best way to engage with their customers in (near) real time and deliver the types of experience their customers expect now and into the future.

Consumers increasingly expect distinctive, personalised offers with tailored communications delivered at the right time through their preferred channel, and if they choose to engage, the customer experience should be fast and frictionless, requiring minimal effort.<sup>28</sup>

Technology can be used across the customer journey, from acquisition, credit decisioning, fraud prevention and deepening relationships, to smart servicing and dispute resolution, and technology-enabled decision-making is increasingly being embedded in the business models of traditional and non-traditional financial firms, including BNPL providers.

Technology-enabled suitability assessments and credit decisioning are core elements of technology enabled finance, facilitating quick assessments of a customer’s disposable income and other data to generate highly accurate predictions of a customer’s suitability and capacity to make regular loan payments.

Providers use proprietary algorithms to assess a variety of structured and unstructured data collected from both traditional sources (such as bank transaction history and tax returns) and new sources (which may include location data, phone and social media usage data, browsing history, utility bills, and other payment schedules). Some providers, including some BNPL providers, also use credit bureau reports, which in Australia are updated on a monthly basis by participating lenders.<sup>29</sup>

All data is gathered digitally via a network of API connections at various points depending on the provider’s business model: at onboarding, during customer engagement and/or at the point of purchase. For existing customers, the additional data source of a customer’s prior repayment history is used.

<sup>26</sup> Australian Finance Industry Association Buy Now Pay Later Code of Practice, Sections 11.3 – 11.8.  
<sup>27</sup> RFI Global Australian BNPL Council – December 2021. Base: All consumers (Mar-17: n=2,014, Nov-17: n=2,049, Mar-18: n=2,005, Jul-18: n=2,003, Nov-18: n=2,008, Mar-19: n=2,055, Jul-19: n=2,014, Nov-19: n=2,015, Mar-20: n=2,006, Jul-20: n=2,016, Nov-20: n=2,105, Mar-21: n=2,034, Jun-21: n=2,045, Sep-21: n=2,045, Nov-21: 1,002)  
<sup>28</sup> McKinsey, D Deninzon, N Malik, A Kapoor, Banking Operations for a Customer Centric World, June 2019  
<sup>29</sup> Australian Finance Industry Association Buy Now Pay Later Code of Practice, Sections 11.3 – 11.8.

Use of non-traditional data sources depends on a number of factors, including participation in the open banking regime and other data sharing mechanisms, and requires the recipient to gain relevant consents, secure the data and protect customer privacy in accordance with regulatory requirements.

Traditional approaches, which rely on a narrow set of criteria and credit bureau reports, rely upon consumers and small businesses having a formal credit history and that the data collected is fulsome and up-to-date. To address gaps in credit reporting, additional new sources of data are increasingly used to supplement or replace credit bureau reports across the finance sector.

Data is processed and analysed against the provider's credit and compliance policies and servicing models using their proprietary algorithms. This can include comparing an individual's data to what is known about other individuals with similar profiles, and overlay of seasonality patterns and economic conditions.

The larger the number of data sets a provider has in their data 'warehouse', the more accurately their algorithms can predict credit performance. Some level of credit risk would be expected and would be determined by the risk appetite of individual finance providers.

A technology-enabled financing decision is then made, based on the output of the data synthesis process and includes the relevant amount, repayment term and risk grade. For example, the Commonwealth Bank of Australia has announced a ten minute digital mortgage product,<sup>30</sup> and online small business lender Prospa can make digital lending decisions in seconds with a consistently predictable static loss rate of between 4-6 percent.<sup>31</sup>

By automating as much of the customer journey as possible, providers can reduce the costs of support functions and strengthen each customer's experience with faster decisions and disbursement of funds and fewer requests for documentation. This allows for delivery of finance offers precisely tailored to meet that customer's requirements. Cost savings can be reflected in pricing models and business efficiencies can be reflected in value-add services, including better money management capabilities.

The use of technology also enables early detection of behaviours that signal higher risk of missed repayments, financial hardship, default and fraud.

AI and advanced analytics can also be used to improve dispute resolution. For example, customers with a complaint could make contact any time through internet, mobile, or email channels and in many cases receive quick, real-time resolution. On the back end, systems would perform almost instant data evaluation about the dispute, surveying the customer's history and leveraging historical dispute patterns to resolve the issue. A data-driven triage approach not only improves the customer experience, but enables teams to focus resources on more complex or difficult complaints.

## Merchant testimonial

“Openpay have provided a cost effective option for our association to get more people playing basketball.

A lot of families couldn't afford to pay for their memberships upfront. Being able to offer a payment plan through Openpay has significantly increased the number of new members we have been able to attract to the club.

Integration was easy, we promote the Openpay's service through their content packages, which have been distributed via our social media channels and emails.

Openpay have relieved our club of a massive administrative burden, as we no longer have to chase up members who have missed a payment. We only have a part time finance administrator, so taking that responsibility off them was a big help for us.

Mandurah Basketball Association caters for approximately 3000 players, playing six days per week, from beginning juniors to elite State Basketball League teams. The Association continues to grow with player development programs, school holiday camps and competitions for all levels of skill.

Since the Association started offering payment plans with Openpay they have been able to significantly increase new memberships and reduce their administrative burden.”

Mandurah Basketball Association, Victoria

30 CBA Newsroom "Commonwealth Bank takes next step in reimagining banking for customers", 18 May 2022 <https://www.commbank.com.au/articles/newsroom/2022/05/cba-reimagining-banking.html>

31 Prospa Group Limited, Prospectus, May 2019, p.54.



### Competition is continuing to intensify and is delivering lower merchant costs

The BNPL sector is dynamic and continuously evolving, as evidenced by its compound annual growth rate of 29 percent from 2012 to 2021.<sup>32</sup>

Current BNPL business models are being challenged, and the percentage fee BNPL providers get from merchants on the purchase value is subject to competitive pressures. As an example, the Commonwealth Bank of Australia’s partnership with Klarna offered a fee-free introductory six months for new merchants in Australia.

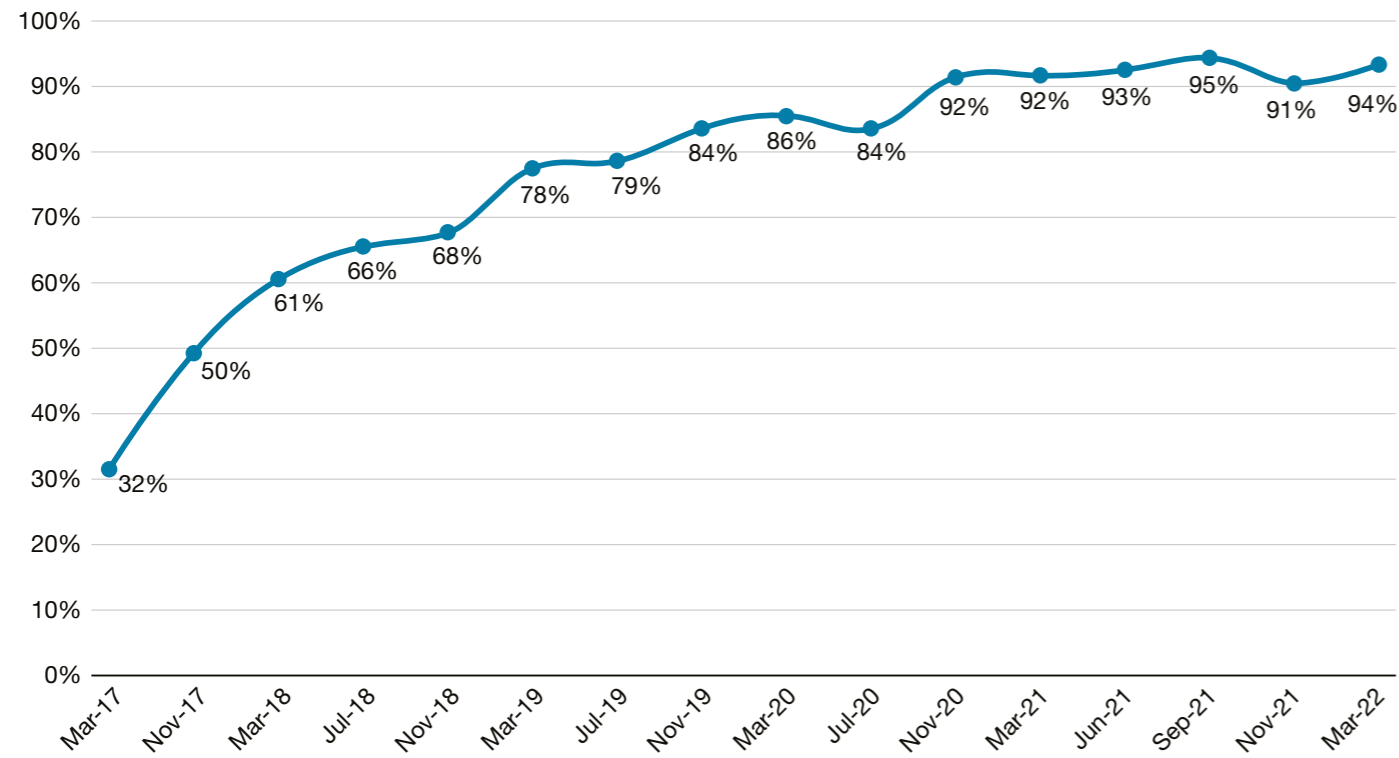
Between 2019 and 2021, the number of merchants accepting BNPL more than doubled and is estimated to be at least 135,400, not taking into account any duplication.<sup>33</sup>

Over this period, increased competition has been associated with decreased fees, especially for medium-sized and enterprise merchants.

Banks and other financial institutions have also launched products with BNPL-like features, including Commbank with “Step Pay”, PayPal with “Pay in 4” and Citigroup with “Spot”. Other finance companies have also launched products with BNPL features, including Affirm for Peloton products only, FuPay, Payitlater and WizPay. In early June 2022 Apple announced “Apple Pay Later”, a new feature enabling users to split Apple Pay purchases into four payments over six weeks. None of these providers are signatories to AFIA’s Buy Now Pay Later Code of Practice. Banks offering BNPL products are signatories of the Australian Banking Association’s Banking Code of Practice.

BNPL is reaching universal awareness with consumers, with 94 percent of consumers aware of at least one BNPL service in March 2022, up from 32 percent in March 2017.<sup>34</sup>

Figure 5: Consumers aware of at least one BNPL service over time



32 ANZ BNPL Competitor Analysis; Zip Annual Report (2016); Openpay Prospectus (2019); ASIC, <https://www.finder.com.au/>; AlphaBeta Afterpay submission to RBA (2019)  
 33 Data provided to AFIA for the Code Compliance Committee by the eight Code signatories, for the period ending 30 June 2021.  
 34 Survey work conducted by RFI Global Australian BNPL Council, December 2021. Base: All consumers (Mar-17: n=2,014, Nov-17: n=2,049, Mar-18: n=2,005, Jul-18: n=2,003, Nov-18: n=2,008, Mar-19: n=2,055, Jul-19: n=2,014, Nov-19: n=2,015, Mar-20: n=2,006, Jul-20: n=2,016, Nov-20: n=2,105, Mar-21: n=2,034, Jun-21: n=2,045, Sep-21: n=2,045, Nov-21: 1,002, Mar-22: n=1008)

Figure 6: BNPL providers currently operating in Australia that are Code signatories<sup>35</sup>

BNPL Provider	Year BNPL launched	Establishment fees	Account keeping fees	Late payment fees	Late payment fees cap	Focus
Afterpay	2014	No	No	Yes	Yes	Purchases up to \$2,000
Brighte	2015	No	Yes	Yes	Yes	Solar and home improvements. Purchases up to \$30,000
Humm BNPL	2019	Yes	Yes	Yes	Yes	Purchases up to \$30,000
Klarna	2005	No	No	Yes	Yes	Purchases up to \$2,000
LatitudePay	2019	No	No	Yes	Yes	Purchases up to \$1,000
LatitudePay+	2021	No	Yes	Yes	Yes	Purchases up to \$10,000
Openpay	2013	Yes	Yes	Yes	Yes	Purchases up to \$20,000
Payright	2016	Yes	Yes	Yes	Yes	Larger and more considered purchases up to \$20,000
Zip	2013	No	Yes	Yes	Yes	Purchases up to \$2,000

### The BNPL sector is regulated and has introduced additional consumer safeguards through self-regulation

In recent years, there has been increased public and regulatory scrutiny of the Australian payments system in the context of the rise of alternative payment methods, including BNPL, digital wallets and crypto currencies. These new innovative payment methods differ in the degree of consumer protection and regulatory oversight currently afforded.

In Australia, BNPL providers are regulated under the *Australian Securities and Investments Commission Act 2001* (“the ASIC Act”).<sup>36</sup> BNPL providers are subject to various legal and regulatory obligations, including unconscionable conduct, misleading and deceptive conduct, and unfair contract terms laws. BNPL providers must also meet legal and regulatory obligations with oversight from the ACCC, AUSTRAC, OAIC and the courts.<sup>37</sup> Furthermore, BNPL providers are also subject to ASIC’s new product intervention power and the recently introduced design and distribution obligations.<sup>38</sup>

In ASIC’s words: “these new regulatory tools, which focus on consumer outcomes and harms rather than imposing prescriptive compliance obligations, will play an important role in promoting good consumer outcomes” across banking and financial services in Australia.<sup>39</sup>

BNPL is also self-regulated through AFIA’s Buy Now Pay Later Code of Practice (“the Code”), which came into effect on 1 March, 2021.<sup>40</sup> The Code is a world first for the sector, setting best practice standards and strengthening consumer protections.

AFIA undertook broad consultation with its BNPL members and key stakeholders such as consumer advocates to understand the key issues the Code should address to deliver confidence to consumers, advocates, ASIC and other stakeholders.

35 Signatories as at 1 June 2022  
 36 ASIC, Buy now pay later: An industry update, Report 672, November 2020, p.4.  
 37 Lexology, “Buy Now Pay Later - A changing regulatory landscape” 25 November, 2021, <https://www.lexology.com/library/detail.aspx?g=6727c4c0-e882-4c74-8e57-fe74cddc89de>.  
 38 ASIC, “Design and distribution obligations: Significant dealing notification requirement” accessed 11 January, 2022. <https://asic.gov.au/regulatory-resources/financial-services/design-and-distribution-obligations-significant-dealing-notification-requirements/>  
 39 ASIC (2020) op. cit.  
 40 AFIA, “AFIA Buy Now Pay Later (BNPL) Code of Practice” accessed 21 December, 2021. <https://afia.asn.au/AFIA-Buy-Now-Pay-Later-Code-of-Practice>

### The BNPL Code of Practice goes above and beyond the law

The Code goes above and beyond the law by ensuring customers have strong safeguards in place that help them better understand the product and their rights.

All Code Compliant BNPL providers conduct suitability assessments before a potential customer can make a purchase and additional checks 'in life' to prevent, for example, customers extending themselves further if they are showing signs of difficulty making repayments.

In addition, there are detailed commitments to help people who find themselves in financial hardship. Furthermore, it is mandatory for all Code-compliant BNPL providers to ensure customers have access to internal complaints handling, so complaints are resolved quickly and fairly, and if they cannot be resolved providers must be members of the Australian Financial Complaints Authority (AFCA) to provide external dispute resolution services.

A Code Compliance Committee, independent of AFIA and the BNPL providers, comprising industry and consumer representatives is charged with monitoring provider activity and dealing with complaints and potential non-compliance.

The Code Compliance Committee is chaired by former long-term ACCC deputy chairman Dr Michael Schaper and includes a consumer representative nominated by the Consumers Association of Australia, Ms Jillian Brewer, and experienced corporate director and lawyer Mr Craig Pudig.

## Merchant testimonial

“BNPL suits our business model perfectly and gives clients affordable and easy payment options to pay for the prints and products they truly love, either in full or by instalments.”

Our clients are very educated on their purchase options. We promote Payright via our website, through our social media posts (Facebook posts and Instagram stories), it is mentioned on several of our client email templates and is also specified on a flyer we hand to clients after their photo session.

BNPL has enabled my business to grow. The option of regular, lower repayments has suited dozens of my clients, and as a result they were able to purchase all of the items they really wanted. It's allowed me to grow overall revenue and also enabled me to upsell and grow my average sale total. Customers are choosing to use Payright for a number of reasons. Some use it to order more items but at an affordable rate, some use it to buy items they otherwise wouldn't be able to at the time, whereas others sign up to buy themselves some time over the busy Christmas period.

Payright drives approximately 10 percent of my total sales including many I would otherwise have missed. That's 10 percent incremental sales I'm able to gain by offering a more affordable payment solution to my customers.

Clients love having the choice to pay their orders off over select time periods and at intervals of their choice, and with a lower deposit. Plus, they can collect their orders as soon as they are printed which is a real draw card.

Payright has been a game changer for Houndstooth Studio on a number of levels. There are so many benefits. Previously we ran our own layby plans where clients paid a fixed amount via direct debit each fortnight and we held their goods until they were paid for in full.

While most clients paid on time, we found ourselves having to regularly chase up late or missed payments. Now I don't have to store masses of product anymore while waiting for them to be paid off, and my cash flow on these transactions is pretty much immediate – which is so much better than having to sometimes wait years for an order to be paid in full.”

Alex Cearns, Houndstooth Studio, Perth



# BNPL is becoming a leading payments choice for some consumers

**8%**

Of Australians say they prefer to use BNPL for their online transactions<sup>41</sup>

**60%**

Of BNPL transactions were conducted online in FY21<sup>42</sup>

**\$151**

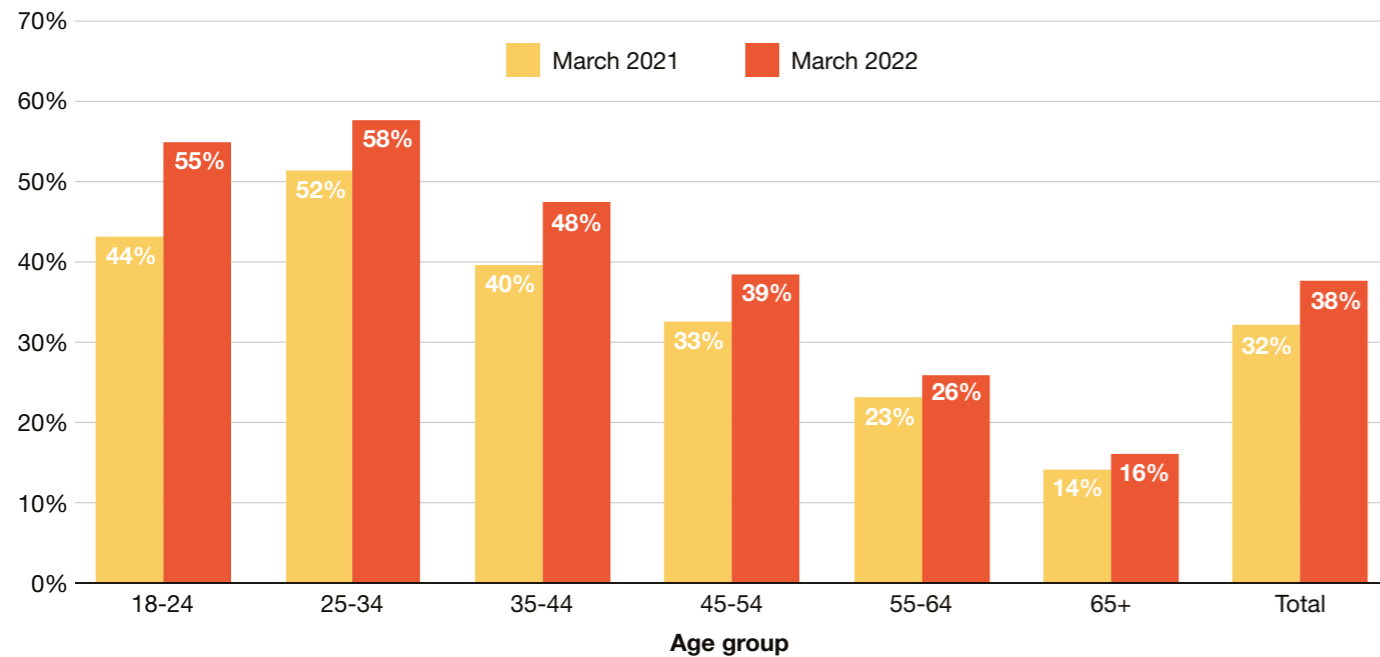
The average BNPL transaction value in 2021<sup>43</sup>

## BNPL is becoming the leading payments choice for some consumers.

Usage increased for all age groups during the period March 2021 to March 2022, with approximately 50 percent of BNPL users aged 18-24 first using a BNPL service in 2021, recognising a shift in consumer preferences for online transactions, zero interest products and better management of cashflow.<sup>44</sup>

The proportion of adult Australians who have used BNPL increased over the last 12 months, from 32 percent in March 2021 to 38 percent in March 2022.

Figure 7: BNPL Usage over time by age group<sup>45</sup>



41 RFI Global Australian BNPL Council, December 2021. Base: All consumers (Mar-17: n=2,014, Nov-17: n=2,049, Mar-18: n=2,005, Jul-18: n=2,003, Nov-18: n=2,008, Mar-19: n=2,055, Jul-19: n=2,014, Nov-19: n=2,015, Mar-20: n=2,006, Jul-20: n=2,016, Nov-20: n=2,105, Mar-21: n=2,034, Jun-21: n=2,045, Sep-21: n=2,045, Nov-21: 1,002). Tests for significance carried out.

42 Ibid.

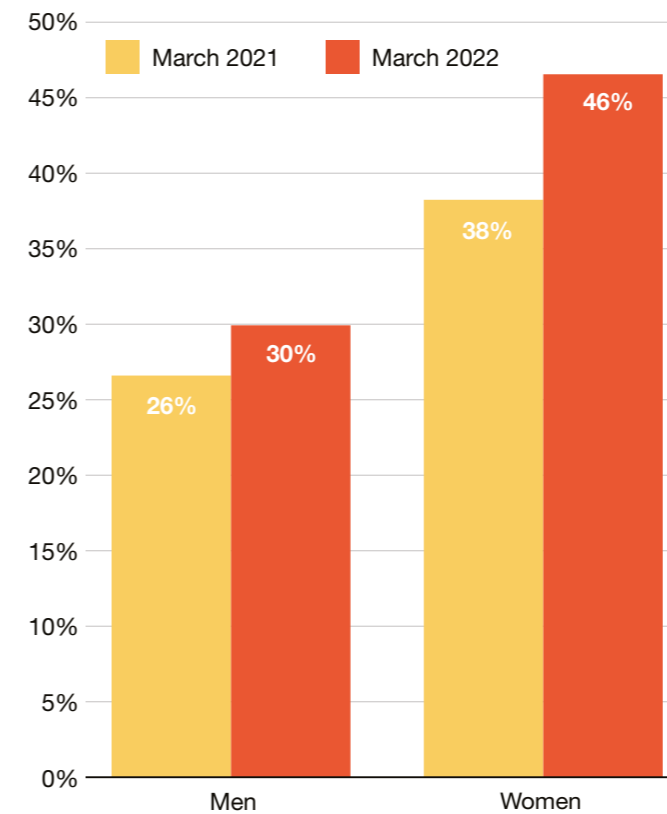
43 Based on 78 million transactions and \$11.9 billion in transaction value in FY21. Based on survey data collected in January-February 2021 by BIS Oxford Economics, provided by BNPL providers that are Code signatories.

44 RFI Global Australian BNPL Council, March 2022.

45 Ibid.

Women are more likely to have used BNPL than men (46 percent vs. 30 percent) and have seen a larger increase in BNPL usage in the last 12 months, while 48 percent of BNPL users surveyed say they have tried more than one BNPL service, reflecting a shift in consumer preferences to choosing the right product that suits their specific circumstances and type of purchase.<sup>46</sup>

Figure 8: BNPL Usage over time by gender<sup>47</sup>



The average BNPL transaction value across all transactions in FY21 was \$151,<sup>48</sup> and this includes where BNPL is used to fund higher value purchases, such as solar system installations or home improvement related purchases and more considered purchases, such as photography and education.

46 Ibid.

47 RFI Global Australian BNPL Council, December 2021.

48 Based on 78 million transactions that year and a spend of \$11.9 billion in FY21 by the eight BNPL providers that are Code signatories. Based on survey data collected in January-February 2021 by BIS Oxford Economics.

49 RFI Global Australian BNPL Council, December 2021.

50 Ibid.

51 Ibid.

52 Ibid.

To date, BNPL has typically been used for e-commerce transactions and not in a physical store, and this trend accelerated in 2021 due to the COVID-19 global pandemic. For example, the percentage of all online/in-app clothing purchases made with BNPL in 2019 was 14 percent, increasing to 20 percent by November 2020 and 22 percent in 2021.<sup>49</sup> In May 2020, BNPL was preferred by 5 percent of consumers for online shopping, rising to 8 percent in 2021.<sup>50</sup>

Eight percent of consumers now say BNPL is their preferred way of paying for online shopping purchases. Five percent say BNPL is their preferred way of paying for booking flights online or buying tickets online to a concert, music festival or show. No consumers surveyed say BNPL is their preferred way of paying for recurring subscriptions such as Netflix, Stan and Spotify.<sup>51</sup>

On average in 2021 BNPL users conducted over 60 percent of their purchases online via a website or an app.<sup>52</sup>

## BNPL User Testimonial

“ I use BNPL for electronics exclusively and only once every 6 months on average.

I fund [my BNPL account] with direct debit out of my bank account, it's no fuss easy to apply for and easy to use across a wide variety of shops.

I do not miss payments, as I am not in the business of paying interest if I can avoid it.

I have Afterpay and Zip as they both cover everything I would need to buy (in terms of shops).

[When asked about AFIA's BNPL Code of Practice] I know there is a Code of Practice for BNPL. It is required so I don't have any strong feelings either way.”

BNPL user, Male, 25.

**Consumers accrue benefits in many areas by choosing BNPL**

- 1. Avoiding interest costs:** BNPL providers offer interest-free instalment payments, with the only extra costs being those that can be avoided by making payments on schedule. BNPL users are generally choosing not to own credit cards because they want to avoid interest, fees and debt.
- 2. More control over money:** BNPL's payment structure gives users more control over their repayment timing and support for budgeting and cashflow management. This enables consumers to make purchases confidently in a way that fits within their own budgeting needs, for example, to align with salary pay periods or other bills and expenses.
- 3. Speed and convenience:** Consumers now expect fast, personalised offers with tailored communications delivered at the right time, through their preferred channel, with automated onboarding processes and seamless checkout options. BNPL providers focus on providing the high quality end-to-end digital customer journeys expected by consumers.
- 4. Flexibility and choice:** Consumers now expect choice in the way they can pay for goods and services. BNPL is an alternative to other payment products such as credit cards, personal loans, payday loans and wage advance products. The BNPL sector includes a broad range of business models giving consumers flexibility and choice based on their circumstances and purchase type.
- 5. Exposure to new merchants:** BNPL providers generally offer an online shop directory allowing consumers to search and discover new and relevant merchants who may offer products and services better suited to their needs or budget.
- 6. Checks and Balances:** Consumers are typically started on low spending limits with the first instalment payment required upfront; and are prevented from spending additional funds if any repayment is missed, lowering their risk of exposure to expensive long-term or revolving debt.

### BNPL User Testimonial

*“ I have two accounts. I did have a third account, but it is usually at the same places, so I got rid of it. I have Klarna because it is used at more expensive brands, and I like how it gives you the card to use on almost any store even if it's not accepted and then Afterpay because it's always an easy option when you go to check out.*

*I mainly use my BNPL for clothes, accessories, and I have bought flights (when we could travel) and other goods I might need. I have even paid for my hair to be cut on BNPL.*

*I probably use BNPL an average of twice a month.*

*I've used BNPL since it first started, so I think I was 22 when I first used it, and so now it's just habitual. I first started using it because I generally did not have the money to buy the clothes I wanted. Now I use it because I think some months for me are a lot busier socially, and then it gives me the ability to spread out my money and not to feel overwhelmed.*

*I have my BNPL accounts attached to my credit card and my debit card. I pay my credit off each month with no interest – I only have a minimal limit on the credit card. I haven't missed a payment. I always pay in advance when I get paid from work.*

*[When asked about AFIA's BNPL Code of Practice] I know there's a Code for BNPL if things go wrong but I feel indifferent. As a consumer, I honestly think that BNPL has been the only product that hasn't felt like it has had hidden fees, so for it to become regulated could result in changes.*

*To be honest, BNPL has been the best thing that ever happened, and it has allowed me to go away on holidays, buy clothes that I wanted, and not make me feel as anxious. When I was younger, it helped me so much, and it sort of changed the way I thought of payments and felt just like paying a phone bill – I really love it.*”

BNPL user, female, 28

**Consumers saved \$102 million in interest in FY21 by using BNPL instead of credit cards**

## \$102 million

Consumers avoided \$102 million in interest in FY21 by using BNPL instead of a credit card<sup>53</sup>

## 48%

Of BNPL users do not hold a credit card<sup>54</sup>

## 22%

Of BNPL users use a credit card to make their repayments<sup>55</sup>

BNPL enables consumers to pay for purchases of goods or services in regular instalments over a shorter period of time, usually interest free. Users are typically provided with a payment schedule in their BNPL app and are sent regular payment reminders.

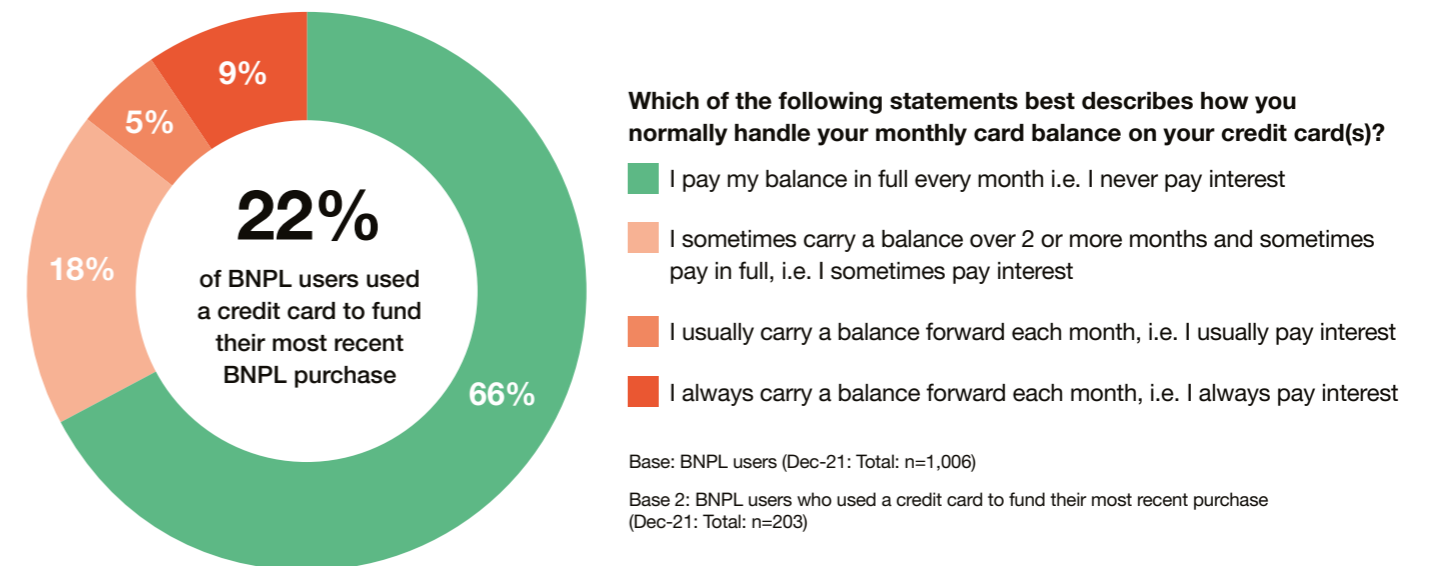
BNPL users are often choosing not to own credit cards because they want to avoid interest, fees and debt. 48 percent of BNPL users surveyed don't have a credit card at all and use either a debit card or bank account to fund their BNPL repayments.<sup>56</sup>

Just 1 in 5 BNPL users made their most recent BNPL purchase with a credit card, with the majority of BNPL users reporting using a debit card or bank account.<sup>57</sup> The proportion of BNPL users funding their most recent purchase with a credit card increases with age. 85 percent of those aged 18-24 who are using BNPL fund their repayments with a bank account or debit card.<sup>58</sup>

Transactors – being credit card holders who always pay their balance in full and never pay interest – are significantly more likely to have funded their most recent BNPL purchase with a credit card (46 percent)<sup>59</sup>. This is compared to BNPL users who are Revolvers – being credit card holders who carry their balance forwards and therefore incur interest, (approximately 30 percent) – suggesting the way a consumer uses a credit card impacts their decision of how to fund BNPL purchases.<sup>60</sup>

Of the 22 percent of BNPL users who used a credit card to fund their repayments on their last BNPL purchase, 66 percent always pay their overall credit card balance in full every month and never pay interest. Nine percent of BNPL users who used a credit card to fund their most recent BNPL purchase always carry a credit card balance forward each month.<sup>61</sup>

**Figure 9: The credit card repayment behaviour of BNPL users with their BNPL account attached to a credit card<sup>62</sup>**



53 Based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022. and RFI Global survey data (December 2021 – February 2022)  
54 RFI Global Australian BNPL Council, December 2021.  
55 Ibid.  
56 Ibid.  
57 Ibid.  
58 Ibid.

59 Ibid.  
60 Ibid.  
61 Ibid.  
62 Ibid.

**Consumers prefer using BNPL because it gives them more control over their money**

**54%**

Of users say BNPL helps them manage their cashflow<sup>63</sup>

**49%**

Of users say BNPL helps them feel in control of their spending<sup>64</sup>

**54%**

Use BNPL to avoid interest charges<sup>65</sup>

Consumers use BNPL as a payment method for a variety of reasons, in particular because it helps them manage their cashflow (54 percent) and feel in control of their spending (49 percent). This enables consumers to make purchases in a way that fits within their own budgeting needs, for example, to align with salary pay periods or other bills and expenses.<sup>66</sup>

BNPL users believe BNPL offers benefits compared to a credit card, with the primary benefits being firstly cost: specifically avoiding interest (54 percent) and lower fees (38 percent); and secondly control: making it easier to repay large purchases (43 percent) and to track and manage repayments (39 percent).

Even among non-BNPL users there is recognition BNPL may offer some benefits over other payment options such as a credit card, with 42 percent agreeing there are benefits to using BNPL - and the primary benefit for 1 in 4 non-users being the fact that BNPL does not charge interest.<sup>67</sup>

BNPL includes a broad range of business models giving consumers flexibility and choice based on their circumstances and purchase type.

The frequency of BNPL usage by consumers varies by provider and BNPL services catering to higher value purchases are used much less frequently and have a higher average transaction value.

Users report using BNPL an average of 16.6 times per year or 1.38 times per month. When BNPL users were asked about the value of their most recent transaction, more than 97 percent of the transactions they reported were less than \$3,000, 2.5 percent were between \$3,000 and \$10,000 and only 0.1 percent were over \$10,000.<sup>68</sup>

BNPL is most frequently used in five main categories as detailed in the table below.<sup>69</sup>

**Figure 10: Types of purchases consumers have made using BNPL, by age**

	18-24	25-34	35-44	45-54	55-64	65-80	Total
1	Clothing and shoes (47%)	Clothing and shoes (50%)	Clothing and shoes (39%)	Clothing and shoes (42%)	Clothing and shoes (39%)	Household Appliances (34%)	Clothing and shoes (42%)
2	Electronics (24%)	Electronics (34%)	Electronics (31%)	Household Appliances (26%)	Household Appliances (35%)	Clothing and shoes (33%)	Electronics (29%)
3	Games & toys (24%)	Household Appliances (28%)	Household Appliances (26%)	Furniture and homewares (26%)	Furniture and homewares (27%)	Electronics (29%)	Household Appliances (28%)
4	Jewellery and accessories (22%)	Furniture and homewares (26%)	Furniture and homewares (21%)	Electronics (25%)	Electronics (25%)	Furniture and homewares (21%)	Furniture and homewares (24%)
5	Beauty & cosmetics (20%)	Games & toys (26%)	Games & toys (21%)	Games & toys (22%)	Jewellery and accessories (16%)	Jewellery and accessories (11%)	Games & toys (19%)

63 Ibid.  
 64 Ibid.  
 65 Ibid.  
 66 Ibid.  
 67 Ibid.  
 68 Ibid.  
 69 Ibid.



The average values for purchases on household appliances (\$505), electronics (\$460) and furniture (\$400) are significantly higher than the average amount spent on beauty products (\$100) and clothing (\$112).<sup>70</sup>

On average, based on RFI Global consumer survey data, BNPL users estimate they have spent \$1,102 through BNPL services in the last 12 months, however, for those aged 18-24 the amount is less than half this amount at \$534.<sup>71</sup>

50 percent of users say BNPL allows them to time their purchases to coincide with special offers and reduce their purchase costs. Furthermore, 35 percent say they have been introduced to new brands and retailers via BNPL services and are therefore able to find more suitable products to meet their needs.<sup>72</sup>

BNPL users are significantly more likely than non-BNPL users to utilise new or emerging payment methods, including mobile wallets and are significantly less likely to use cash or credit cards. This suggests this segment is interested in trialling new ways to pay for their goods and services and are more open to using digital payment innovations that are convenient and interface easily with mobile devices, for example a smartphone.<sup>73</sup>

### The cost of BNPL to consumers – what happens when things don’t go as planned

As noted by ASIC, “consumers don’t always manage their money correctly”,<sup>74</sup> and this is relevant for all financial services and credit providers.

BNPL providers offer interest-free instalment payments, with typically the only extra costs being those that can be avoided by making payments on schedule. 18 percent of BNPL users surveyed have missed a BNPL repayment in the past 12 months compared to 17 percent of credit card holders who missed a credit card repayment.<sup>75</sup>

Purchase limits on BNPL accounts are typically lower than for credit cards which acts to reduce the potential for consumers to spend beyond their repayment capacity and can facilitate them getting back on track

## BNPL User Testimonial

“I’ve used BNPL since the beginning. I only have one BNPL account and use it once a month to every fortnight. I use BNPL because I don’t have to pay the full amount in one go. If I just used my debit card it’s all paid in one go, but I may as well have my money in my account for as long as possible. I’m also a platinum member of my BNPL provider so I don’t actually pay anything until a fortnight after my purchase.

I prefer BNPL over a credit card since it has no fees and automatically splits the payments up with no interest charged if paid off according to their schedule. If I don’t have a lot of money in my account I can still buy what I want and pay it off over a short period of time. I use my debit card set up on an auto payment and bank account as a back up payment option and I’ve never missed a payment.

I love it! (BNPL). Credit cards seem old fashioned now. I hope it is here to stay. Easy to use, accessible and available to everyone. No fees or strings attached (from what I have seen at least).”

BNPL user, female, 30.

faster. In all cases, for those who make their BNPL repayments late, late fees are capped and users cannot make additional purchases until their account is settled. This breaks the cycle of revolving debt enabled by traditional credit products such as credit cards.

BNPL users of all ages were asked to indicate positive or negative outcomes as a result of making firstly BNPL, and secondly, credit card repayments. Users are more likely to say that BNPL has helped them budget than credit cards and are also more likely to say that BNPL has helped them save than credit cards.

Conversely, BNPL users are more likely to say that credit cards have caused them to go without, or cut back on, essentials than BNPL.

70 Ibid.

71 Ibid.

72 Ibid.

73 Ibid.

74 ASIC (2020) op. cit.

75 RFI Global Australian BNPL Council, December 2021.

Figure 11: Percentage of BNPL users who have experienced positive and negative outcomes as a result of making repayments<sup>76</sup>

Item	Impact of using BNPL (%)*	Impact of using credit cards (%)**
I was able to budget more effectively	25.3	15.3
I was able to pay household bills	10.5	9.9
I was able to save more	13.4	9.8
I was able to purchase essentials I could not purchase otherwise	17.1	Not asked
Went without essentials to make repayments	4.4	5.1
Cut back on essentials to make repayments	7.3	9.7

To gain greater insight into how BNPL users are managing their finances, we looked at financial hardship and complaints data and conducted research into BNPL user attitudes towards ‘essentials’.

### The level of financial hardship relative to the BNPL user base is low.

Data collected from the eight BNPL Code signatories,<sup>77</sup> together estimated to account for nearly 95 percent of the BNPL market by volume, indicates a total of 20,055 hardship arrangements were in place on 30 June 2021. At the same point in time, there were just over 5.9 million active BNPL accounts, indicating that 0.34 percent of active BNPL accounts were the subject of hardship arrangements.<sup>78</sup>

### The level of complaints relative to the BNPL user base is very low.

Data provided by the Australian Financial Complaints Authority (AFCA) indicates that in the period 1 July 2020 to 30 June 2021, AFCA received 767 BNPL complaints.<sup>79</sup> Given there were just over 5.9 million BNPL accounts held with BNPL providers during the same period, this indicates 0.01 percent of these BNPL accounts were the subject of EDR complaints to AFCA.

AFCA reported, “Among the larger BNPL providers, common types of complaints we see involve:

- Complaints about actions taken by BNPL providers to limit access by consumers, including closing or refusing to open accounts and imposing controls on account usage; and
- Complaints about credit enquiries, possibly reflecting consumer’s lack of understanding that a BNPL application may result in a credit check (noting that we also see high levels of complaints about credit enquiries for regulated credit products).<sup>80</sup>

Figure 12: The ratio of BNPL complaints and Credit Card complaints per Account, FY21

	Number of Accounts	Number of complaints recorded by AFCA	Ratio of Complaints to Accounts
BNPL	5.9 million	767	0.01%
Personal credit cards	12.6 million <sup>81</sup>	9,902 <sup>82</sup>	0.08%

76 RFI Global Australian BNPL Council, December 2021. \*BNPL users n = 1,006 \*\* Current or recent credit cardholders n = 766. Figures may not sum to total due to rounding.

77 Data provided to AFIA in September 2021 for the Code Compliance Committee by the eight Code signatories, for the period ending 30 June 2021.

78 Ibid.

79 AFCA, Response to the Parliamentary Joint Committee on Corporations and Financial Services, 9 July 2021 Answer to question 010, 011, 012 from Mr Hill MP: Buy now and pay later complaints received by AFCA - taken on notice from the public hearing on 18 June 2021.

80 Ibid.

81 RBA, released 7 July 2021, original data, excludes commercial cards.

82 AFCA Response to the Parliamentary Joint Committee on Corporations and Financial Services, 9 July 2021. Answer to question 07, 08 from Senator O’Neill: Complaints received by AFCA - taken on notice from the public hearing on 18 June 2021.



**The proportion of BNPL users going without ‘essentials’ is low.**

Over the 12 months to December 2021, four percent of BNPL users went without ‘essentials’ and seven percent cut back on ‘essentials’ as a result of making BNPL repayments. Among this group, this happened on average three times over this 12 month period.<sup>83</sup>

BNPL users 24 years old and under are significantly more likely than other BNPL users to indicate they have cut back on ‘essentials’ in order to make their BNPL repayments.<sup>84</sup> They also have different opinions on which expenses are ‘essential’ compared to other segments.

**Finding their Feet: 18-21 living with parents**

Those Finding their Feet are the most likely to identify saving on a regular basis as an essential expense category (an ‘essential’) (89 percent), and one of only two segments not including medical expenses in their top three essentials. Student loan repayments (70 percent) feature in the top ten for this segment only. Those Finding their Feet are the life stage most likely to consider entertainment/streaming services as essential (54 percent) and they also see mobile phone ownership / usage as essential (84 percent). They might still be living with parents but many recognise household bills as essential (78 percent).

**Young & Free: 22-35 living with parents and no children of their own**

Those who are Young & Free are the most likely to identify medical expenses as an essential. In contrast to the 18-21 Living with Parents segment, saving on a regular basis only ranks fifth as an essential (83 percent) – an interesting finding given both segments are still living at home. Household bills rank highly again (86 percent, fourth priority) as does home internet (94 percent, third priority). The Young & Free rank pet ownership more highly than any other segment, ranking it 7th and ahead of credit card or personal loan repayments.

**Independent starters: 35 or under not living with parents and no children**

As with other segments, bills, medical expenses and mobile phone costs are the top three essentials for Independent Starters. This is the only segment for which rent is a top five essential (80 percent). Mortgage repayments become more commonly considered essential at this life stage (60 percent). 28 percent of Independent Starters consider going out with friends to be essential and they are life stage most likely to consider food delivery services as essential (24 percent). 35 percent indicate that they’re now seeing some expenses as essential which they didn’t 12 months ago.

**Young families: 35 or under with children**

The expenses Young Families consider essential are indicative of a clear shift in priorities from other life stages. Car expenses (83 percent) and childcare and child education costs (81 percent) emerge as top five essentials. Other expenses featuring in the top five are those common across all life stages – household bills, home internet and medical expenses. This segment is the most likely to indicate they’re now seeing some purchases as essential that they didn’t 12 months ago (38 percent).

**Established families: 36-54 with children living with them**

The expenses Established Families consider essential are very similar to Young Families. Childcare expenses drop out of the top five (68 percent), with household bills, medical expenses and car expenses making up the top three.

**Mature workers: 55+ and working**

For Mature Workers, childcare and child education costs have become less essential (24 percent). Mature Workers are very likely to say their essentials have not changed in the past 12 months (66 percent). This segment is the only one with home internet as one of their top two essentials.

**Enjoying retirement: 55+ and retired/ not working**

Those Enjoying Retirement have the smallest number of essentials. The top three of household bills, medical expenses and car expenses are not unique, but other expenses such as saving on a regular basis (63 percent), childcare costs (10 percent) and entertainment services (16 percent) become significantly less essential compared to other life stages. Those Enjoying Retirement are the most likely to indicate no changes to their essentials over the past 12 months (76 percent) and they don’t expect any changes over the next 12 months (82 percent).

**Consumers’ definition of ‘essentials’ changes by age and over time<sup>85</sup>**

In order to better understand consumer attitudes to BNPL it is important to understand how individuals think about their finances more broadly. Consumers at different life stages have very different opinions on which expenses are ‘essential’, with consumption patterns and priorities changing based on personal circumstances, preferences and over time.

Socialising is more likely to be seen as ‘essential’ among the Finding their Feet and Independent Starters segments. 30 percent of Finding their Feet and 28 percent of Independent Starters consider going out with friends to be an ‘essential’ expense. This compares with only 18 percent of Established Families and 14 percent of those Enjoying Retirement.<sup>88</sup>

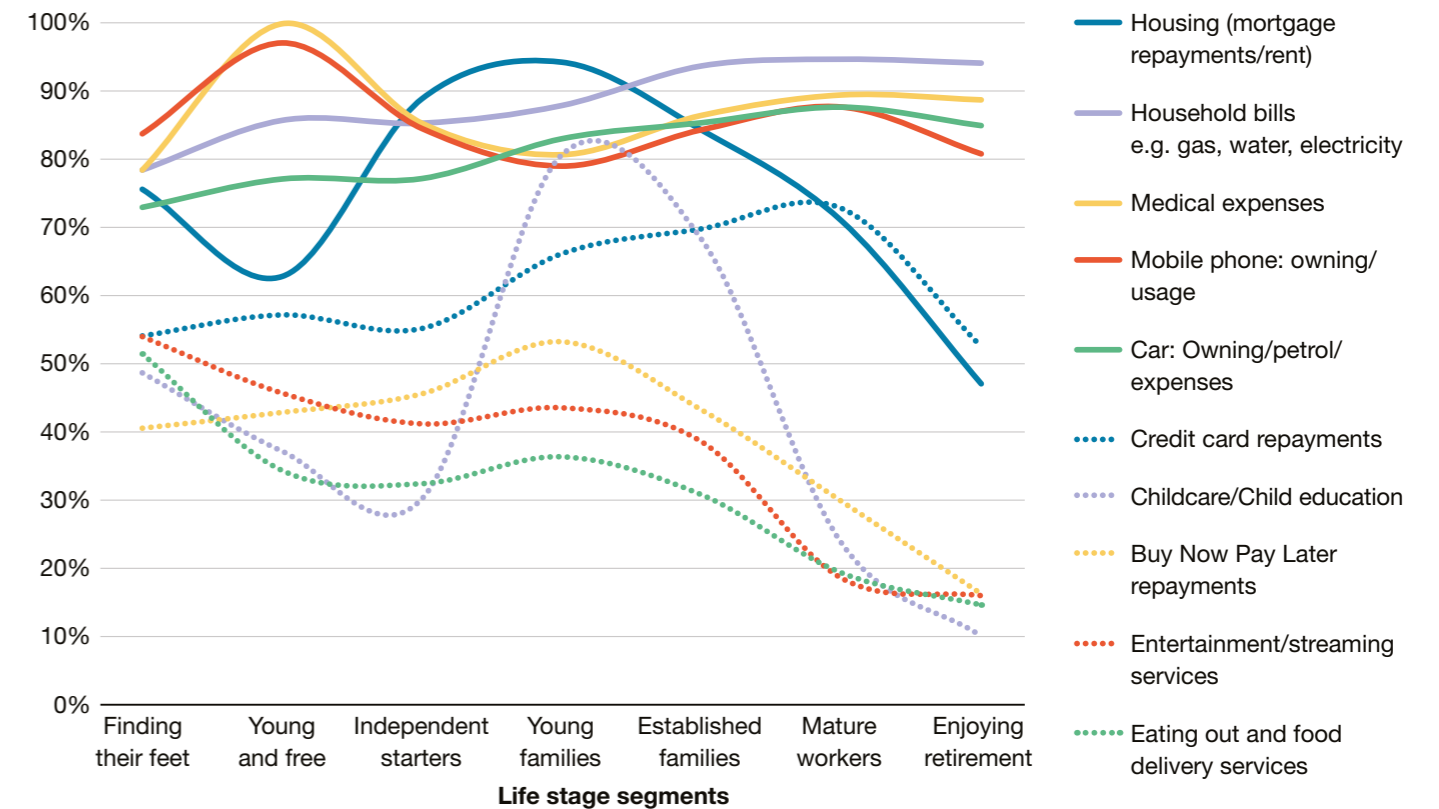
For many of the consumers surveyed, the following goods and services are deemed ‘essential’: socialising with friends, mobile phone ownership, streaming services, saving money, gym membership, pet ownership, household bills, childcare, child-related expenditure and car ownership.

For those who are in the Finding their Feet segment, 54 percent consider entertainment/streaming services to be ‘essential’ and 35 percent consider gym memberships to be essential. This compares to the average for all other age groups of 31 percent and 13 percent, respectively.<sup>89</sup>

On average, consumers in the Enjoying Retirement<sup>86</sup> segment believe they have 8.2 ‘essential’ expenses, compared to consumers in the Finding their Feet and Young Families segments, who believe they have 13.5 and 13.2 different ‘essential’ expenses, respectively.<sup>87</sup>

Consumers in the Finding their Feet, Independent Starters and Young Families segments switch their spending preferences proactively and are the most likely to indicate some expenses they saw as non-essential 12 months ago, they now view as ‘essential’, and vice versa.

**Figure 13: Essential Expenses by Life Stage<sup>90</sup>**



85 RFI Global Australian BNPL Council, February 2022. n = 1001.

86 Refer to inset on page 32 of this Report for definitions of each segment.

87 RFI Global Australian BNPL Council, February 2022.

88 Ibid

89 Ibid

90 Ibid

83 RFI Global Australian BNPL Council, December 2021.

84 Ibid.

Only 24 percent of consumers in the Finding their Feet segment, 31 percent of Independent Starters and 34 percent of Young Families indicate that there has been no change in the type or purchases they see as essential. This is in stark comparison to 66 percent of Mature Workers and 76 percent of Enjoying Retirement who have a fixed view on what they regard as 'essential'.<sup>91</sup>

Looking forward over the next 12 months, 38 percent of Finding their Feet and 39 percent of Young Families segments believe they will start seeing some expenses as essential which they currently view as non-essential, including travel.<sup>92</sup>

## BNPL User Testimonial

“I have two BNPL accounts which I use depending on which one is accepted by the places I like to shop. I only use them for online shopping and I mostly buy clothes, jewellery and beauty products. I've missed a few payments but only because I didn't remember to move money into the right account in time so that was on me.

I've probably gone without my essentials three times in the past 12 months so I could make my repayments. For me, the absolute number one essential in my life is my mobile phone. I could NEVER go without that. It's the thing my whole life revolves around. Second is going out with my friends and third is petrol for my car. Those are my essentials.

I don't consider food or groceries as an essential because I live at home and my parents pay for that. When I need to use my money to make BNPL repayments I still go out with friends but just don't buy drinks or food, and I stop using my car if I can't afford petrol and just walk or use the train.”

BNPL user, Female, aged 23

## The gross consumer benefit from using BNPL was worth A\$264 million in FY21

**\$11.9 billion**

The value of transactions made using BNPL in FY21 in Australia<sup>93</sup>

**\$264 million**

The estimated gross benefit of BNPL to consumers<sup>94</sup>

**\$68 million**

The estimated net benefit accruing to BNPL customers in FY21<sup>95</sup>

BIS Oxford Economics have calculated that BNPL users in Australia gained \$264 million in gross benefit from using BNPL services in FY21 and \$68 million in net benefits.

These benefits were driven by savings in interest and fee costs (relative to credit cards), surcharge savings and the benefits to consumers of delaying purchase payments, allowing for more effective budgeting, maximising return on savings and providing a better reflection of consumer preferences.

<sup>91</sup> Ibid

<sup>92</sup> Ibid

<sup>93</sup> Based on survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022.

<sup>94</sup> Based on Ibid, quantitative surveys of conducted by RFI Global across December, 2021 and January and February 2022; and BIS Oxford Economics analysis.

<sup>95</sup> Ibid



# BNPL is supporting the growth of Australian businesses

**\$2.13 billion**

The increase in gross revenue generated by BNPL for Australian businesses in FY21<sup>96</sup>

**\$18,576**

The average increase in revenue generated by BNPL for small businesses in FY21<sup>97</sup>

**135,400+**

The estimated number of BNPL-accepting merchants in Australia<sup>98</sup>

## BNPL supports merchant participation in the digital economy

Australian consumers are demanding more flexibility in how they pay for goods and services. Online non-food sales have increased 314 percent since January 2015 with a spike in growth during the COVID-19 global pandemic, when restrictions placed on the operation of physical retail stores resulted in both businesses and consumers turning to online trading.<sup>99</sup>

To adapt to this shift, most retailers are evolving to have an online presence, and many are using new point of sale offerings and payment technologies, like BNPL and PayPal, to meet the needs of their increasingly value conscious customers, replace cash usage, develop offers that meet these needs and improve the customer experience. 80 percent of BNPL accepting merchants surveyed are selling via a website, versus only 40 percent of non-BNPL accepting merchants.

BNPL provides benefits to both merchants and consumers. However, unlike credit cards, where the benefits of additional services, including loyalty points, mainly accrue to the consumer, BNPL delivers the majority of its benefits to merchants. Consumer loyalty programs may also be offered by some BNPL providers.

The benefits Australian merchants receive from accepting BNPL include driving incremental sales, increasing average order values and attracting new customers. BNPL-accepting merchants also benefit from the provision of marketing support, reduced fraud and bad debt.

These benefits are particularly pronounced for the small businesses accepting BNPL. Merchants with revenue of less than \$5 million believe BNPL delivered a benefit of almost \$20,000 over the past 12 months, or approximately 6 percent of their revenue.<sup>100</sup>

BNPL providers and their merchant partners have also made a substantial contribution to the Australian economy, supporting more than 99,200 local jobs through FY21 from total transaction volumes and spending, once flow-on effects throughout the economy are taken into account.

## The maturity of BNPL in Australia means the benefits are well understood by merchants

The maturity of BNPL in Australia means many merchants have been accepting it for some time. One in three BNPL accepting merchants surveyed have been accepting BNPL for more than two years and 70 percent have been accepting BNPL for more than 12 months, suggesting they are in a good position to assess the benefits and costs of acceptance.<sup>101</sup>

Merchants primarily begin accepting BNPL to attract new customers. 20 percent of surveyed BNPL accepting merchants indicated winning additional business was their number one reason for beginning to accept BNPL and 57 percent indicated this was one of their top five reasons. 54 percent of merchants indicated enhancing customer convenience was a top five reason for starting to accept BNPL.<sup>102</sup>

There is a high level of multiple BNPL service acceptance with many merchants choosing to offer more than one BNPL service in order to offer their customers maximum possible payment choice. Of the merchants surveyed that accepted BNPL, over 60 percent accepted more than one BNPL service meaning customers can often choose between BNPL services as well as between BNPL and other types of payment options.<sup>103</sup>

Merchants also benefit from choice in terms of which BNPL services to accept and can, therefore, make the decisions they believe work best for them. They also identify that each BNPL service offers them incremental value. Despite the high level of multiple BNPL service acceptance, 37 percent of BNPL accepting merchants say they are very likely to start accepting another BNPL service in the next 12 months and a further 21 percent say they are somewhat likely to. This intent seems to be indifferent to the number of BNPL services the merchant currently accepts. Ninety percent of merchants accepting BNPL promote this fact on their website, in store, in person or elsewhere.<sup>104</sup>

Ultimately, merchants view BNPL services as complementary, rather than as substitutes, for one another. With zero or minimal set up costs, there is no barrier to merchants accepting multiple services if they believe it is in the interest of their business and customers to do so. BNPL providers need to compete to maintain the allegiance/preference of merchants and this competitive pressure is being reflected in the decrease in the fees charged to merchants over time and the increase in marketing and other support.

Having adopted BNPL services, merchants have also found these services support their business in a variety of other ways, including helping their business through the COVID-19 global pandemic, adding credibility to their brand and improving the customer experience.

## Merchant case study

“ We have a young customer base and offer a lot of premium and unique products. A lot of people want to pay in instalments for the ‘must have’ item that they can’t get anywhere else. When we introduced Afterpay on Restated Vintage we saw turnover roughly double, which was a great surprise. ”

Restated Vintage

“ When you have an experiential brand it’s also important to give people control and options throughout their entire shopping journey. How you pay is no exception to that. I’ve always offered Afterpay to provide flexibility for people to choose what suits their needs. Our brand is about practical, unpretentious luxury. As part of that we want to make things inclusive, rather than exclusive. Afterpay is one way to help us do that. ”

Grampians Goods Co.

96 Based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022. and RFI Global survey data (December 2021 – February 2022).

97 RFI Global, Merchant Survey, January 2022. Total n = 702

98 Data provided to AFIA for the Code Compliance Committee by the eight Code signatories, for the period ending 30 June 2021.

99 ABS, Online sales, June 2021, Supplementary COVID-19 Analysis

100 RFI Global, Merchant Survey, January 2022. Total n=323

101 RFI Global, Merchant Survey, January 2022. Total n = 702.

102 RFI Global, Merchant Survey, January 2022. Total n = 323.

103 Ibid.

104 Ibid.

Figure 14: Key reasons why merchants originally began accepting a BNPL service<sup>105</sup>

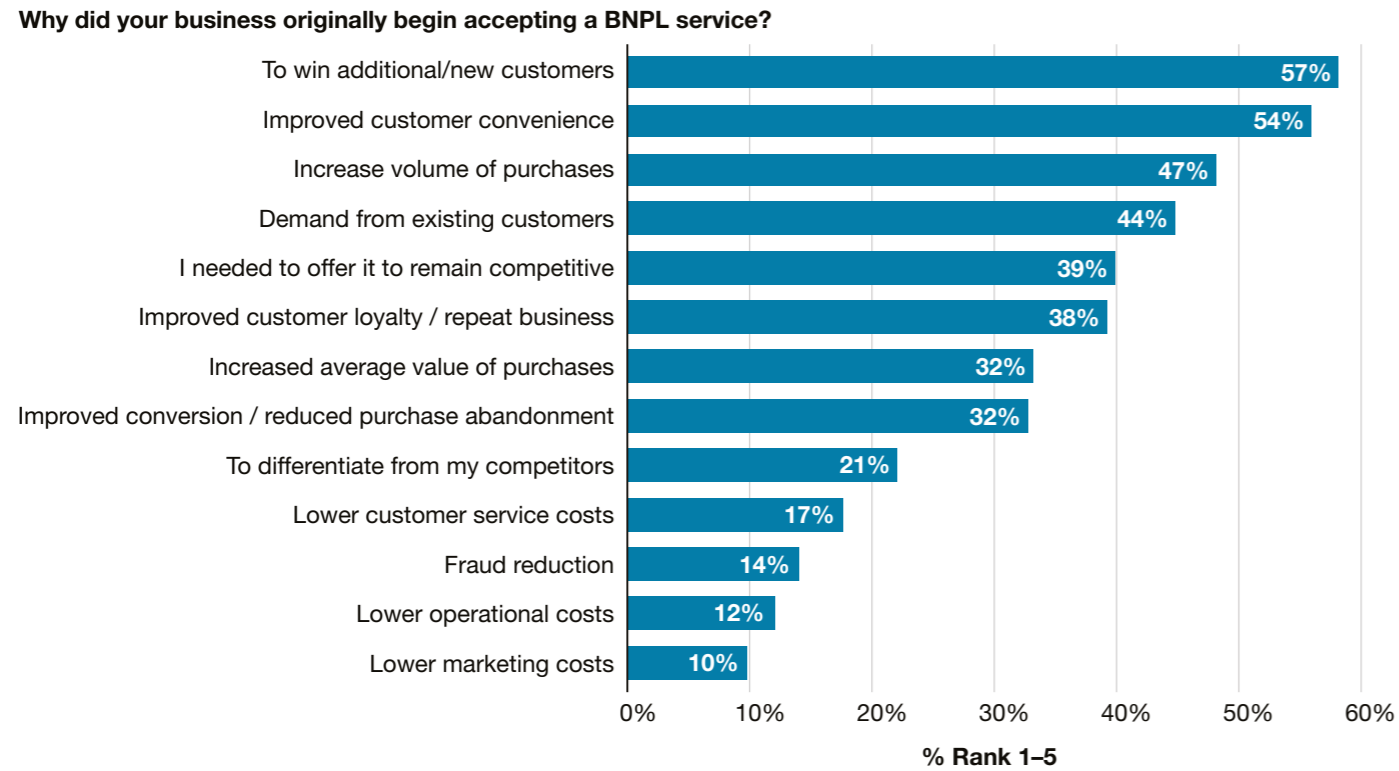
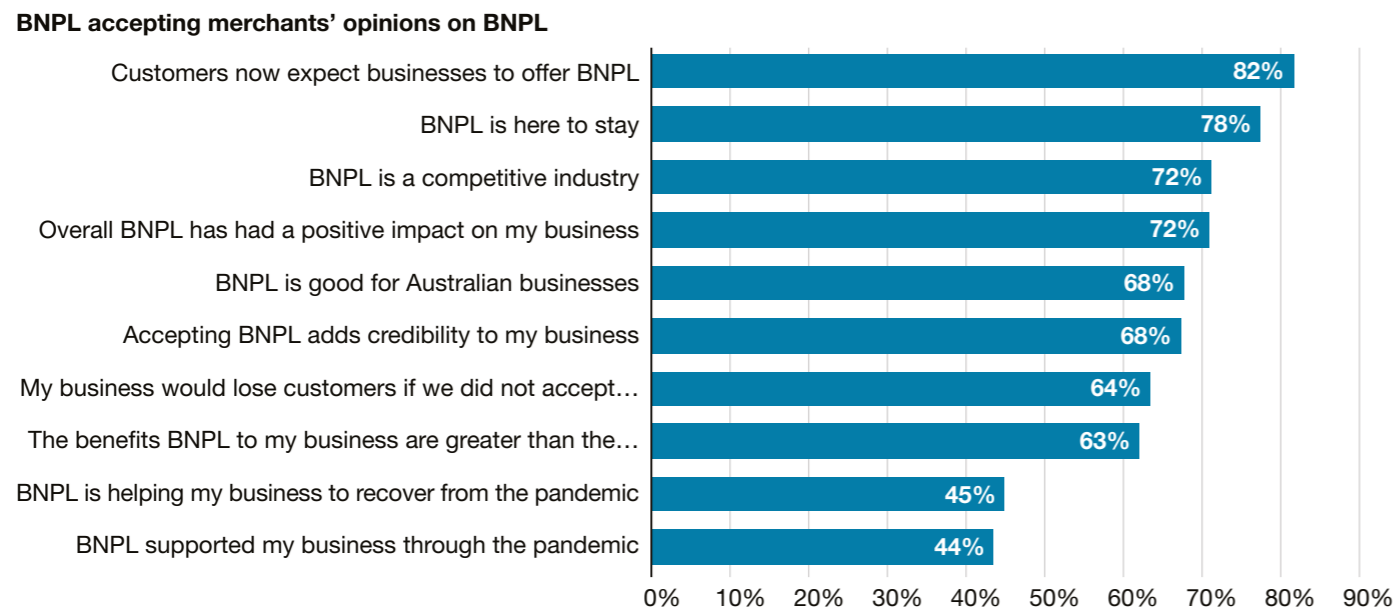


Figure 15: BNPL accepting merchants' opinions on BNPL<sup>106</sup>



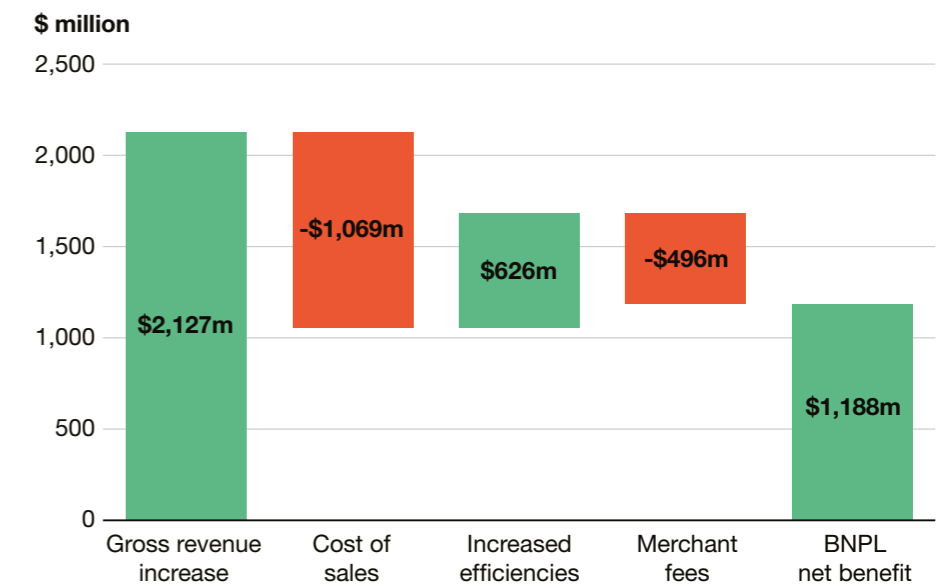
105 Ibid.  
106 Ibid.

Merchants using BNPL gained \$1.19 billion in net benefits in FY21<sup>107</sup>



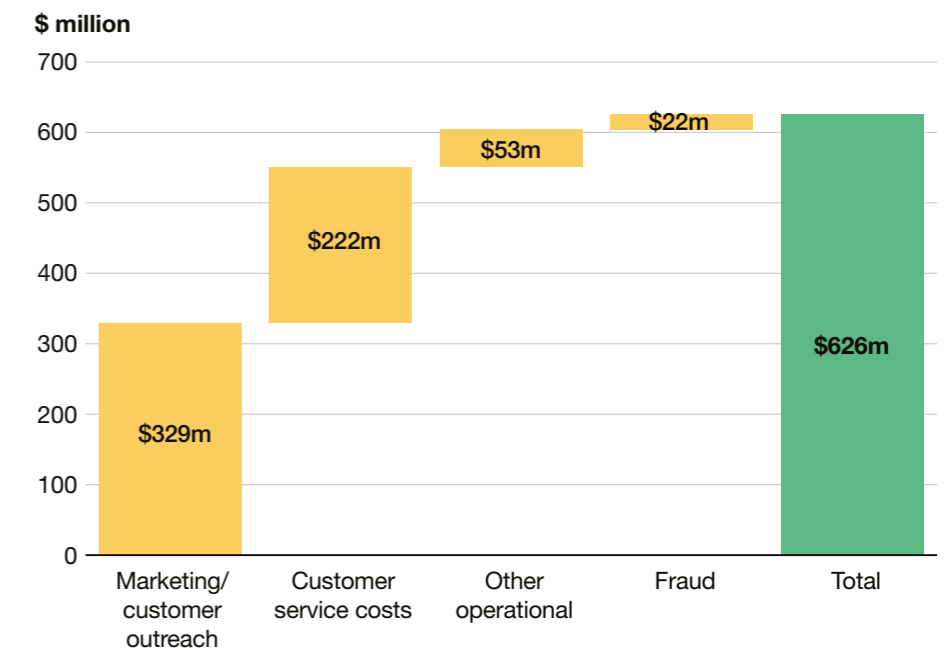
Australian BNPL merchants accrued \$1.19 billion in net benefits from BNPL in FY21. The gross merchant benefits from accepting BNPL, comprising incremental sales and cost efficiencies, total approximately \$2.75 billion. Incremental sales represent the 'new revenue' that BNPL has helped accepting merchants generate, over and above their sales through non-BNPL channels. Cost efficiencies are the result of BNPL's ability to reduce the cost of doing business for merchants. This includes customer servicing, customer acquisition, marketing, reduced online returns, fraud reduction and more.

Figure 16: Breakdown of benefits for merchants accepting BNPL, FY21<sup>109</sup>



For example, the average Australian retailer experiences purchase return rates of between 9 and 20 percent of purchases. BNPL return rates are much lower at between 2 and 6 percent of purchases. Research has shown this to be because BNPL users utilise BNPL as a budgeting tool and are more committed to their purchases, or because BNPL accounts are mainly linked to debit not credit cards - which tend to be associated with high return rates.<sup>108</sup>

Figure 17: Estimation of BNPL merchant efficiency effects, Australia FY21<sup>110</sup>



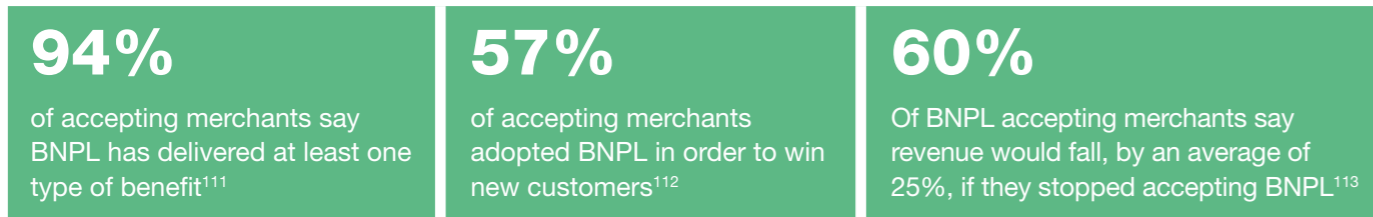
107 Based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022. and RFI Global survey data (December 2021 – February 2022).

108 Afterpay, (2022) Small Business, Big Opportunity.

109 Ibid.

110 Based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022. and RFI Global survey data (December 2021 – February 2022).

**Merchants accrue benefits in many areas that drive growth**



Australian BNPL accepting merchants derived \$2.13 billion in additional revenue in FY21 stemming from BNPL acceptance.<sup>114</sup> This benefit is accrued in a number of key areas:

- 1. Exposure to new customers:** BNPL providers generally offer an online shop directory allowing merchants of all sizes to increase exposure to new customers.
- 2. Improved customer convenience:** BNPL's payment structure gives users more control over their repayment timing and support for budgeting, generating more frequent repeat purchases for merchants offering BNPL.
- 3. Competitive advantage:** Consumers now expect choice in the way they can pay for goods and services and may switch merchants to use their preferred payment method. Merchants with turnover of over \$5 million per annum were more likely to select this as a reason to start accepting BNPL.<sup>115</sup>
- 4. Increased volume of purchases:** This can be attributed to increased basket size and customer exposure, as well as greater brand relevance, increased website traffic, improved checkout conversion rates and higher rates of repeat purchasing.
- 5. Rise in loyalty and repeat purchasing:** The result of connections through the online shop directory is brand relevance and engagement. BNPL users see merchant partners, no matter the size or product, as trusted and relevant. Millennials and Gen Z customers, who are becoming increasingly value conscious and comprise a large proportion of BNPL's user base, are continuing to make purchases through BNPL and this is only expected to grow.

- 6. Larger customer basket size:** Customer control over payments removes barriers to purchase at checkout and gives customers confidence to increase the value of their purchase.
- 7. Improved checkout conversion:** More checkout options and more seamless experiences at checkout directly relate to improved checkout conversion rates. In addition to the availability of BNPL at the point-of-sale, its fast registration process, ability to save customer information, and concept of paying in instalments has led to improved checkout conversion.

51 percent of BNPL accepting merchants say that BNPL has resulted in them winning additional customers and 50 percent say it has resulted in improved customer convenience. 94 percent of accepting merchants say BNPL has delivered at least one type of the benefits that were listed. Benefits delivered to merchants by BNPL are fairly consistent – with no significant differences based on the turnover of the business.<sup>116</sup>

In addition, BNPL accepting merchants are often experiencing benefits beyond those they expected – with 45 percent saying the overall benefit of BNPL acceptance has exceeded expectations - for example, they do not necessarily envisage improved customer experience, but BNPL often delivers this benefit.<sup>117</sup> This demonstrates the value of the holistic benefits created by BNPL, where even if sales do not immediately increase, benefits are gained through other means.

111 RFI Global, Merchant Survey, January 2022, n=323

112 Ibid.

113 Ibid.

114 Based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022. and RFI Global survey data (December 2021 – February 2022).

115 RFI Global, Merchant Survey, January 2022, n=323.

116 Ibid.

117 Ibid.

**Small businesses gain greater benefit from BNPL**

BNPL provides more than just a payments solution for small businesses. BNPL providers actively support the growth and development of their merchant and retailer partners, which is particularly important with the shift happening towards an increasing digital economy.

This support is particularly valuable for small business owners that are time poor, may have low levels of digital literacy, and limited in-house resources to manage their technology interfaces with their customers.

Support mechanisms include targeted marketing campaigns to generate higher sales volumes for small businesses and the provision of retailer resources for small businesses, including business growth case studies, business performance analytics, consumer shopping insights, and interactive and social media support, such as blog posts.

BNPL is an important cashflow management tool for small businesses. Offering BNPL also reduces the risk of credit card repayment default and time spent chasing overdue repayments, which is especially important for small businesses in the solar industry.

BNPL accepting merchants with revenue of less than \$5 million per annum believe that BNPL has delivered a benefit of approximately \$18,576 on average over the past 12 months.<sup>118</sup>

BNPL accepting merchants with revenue under \$50,000 are significantly more likely to agree BNPL is good for Australian businesses, that BNPL has added credibility to their business and that the benefits of accepting BNPL are greater than the cost of accepting it.<sup>119</sup>

118 Ibid.

119 Ibid.

120 Ibid.

**BNPL has supported Australian businesses through the COVID-19 global pandemic and economic recovery**

Overall, 54 percent of BNPL accepting merchants agree that BNPL either supported them through the COVID-19 global pandemic or is helping their business recover from the impacts of the pandemic, or both. BNPL accepting merchants with revenue over \$5 million per annum are more likely to agree that BNPL supported their business through the pandemic and is now helping their business recover from the pandemic.<sup>120</sup>

**BNPL accepting merchants**

**Survey responses, December 2021 – January 2022**

“It definitely helped bring in more sales! I wasn't getting many until I introduced BNPL.”

“Most customers preferred shopping online than walking in store and because many people suffered reduction in work hours, paying cash was hard for most lower to middle earners so introducing buy now pay later made it possible for customers to still purchase the items they needed hence boosting business revenue.”

“BNPL gave customers more confidence with their purchases and a different opportunity for payment methods.”

“(During the pandemic) My BNPL provider sent a care package with lots of marketing tools for in store. They also added Etsy to the ‘buy small’ page which gave us a lot of traffic and more sales.”

“In today's climate, not many people have dispensable cash. Money has been tight because a lot of people have lost a job or have had to reduce their hours. The people that do have cash might want to use it for some other upgrade. There's a lot of people that want solar but don't have the money up front. Buy now, pay later makes it easy for anyone, on any budget.”

“It is allowing the business to get back on its feet and allowing sales to increase.”



**BNPL has helped Australian businesses generate \$2.13 billion in net new sales in FY21**

51 percent of accepting merchants say their sales revenue has increased due to BNPL acceptance. When asked to quantify the benefit of acceptance, merchants believe BNPL has delivered an average benefit of more than \$25,880 over the past 12 months or an average 5.6 percent of their revenue. For businesses with a turnover less than \$250,000 this is \$7,219 which equates to an average 8.8 percent of revenue. For businesses with a turnover above \$5 million the average increase in revenue in the past 12 months as a result of accepting BNPL is approximately \$93,735 which equates to 1 percent of their average reported revenue.<sup>121</sup>

On average, BNPL accepting merchants see 22.8 percent of their sales coming through BNPL services and this is consistent across businesses regardless of their size. A small proportion of merchants - 13 percent – typically see more than 50 percent of their monthly sales coming through BNPL. For merchants with annual revenue under \$50,000 this is higher at approximately 20 percent of merchants. 60 percent of BNPL accepting merchants say their revenue would fall if they stopped accepting BNPL and these merchants predict a 24 percent average reduction in revenue if this scenario arose.<sup>122</sup>

Based on survey data collected from the eight BNPL providers that are Code signatories, evidence from RFI Global’s consumer survey on what consumers would do if they could not use BNPL and BIS Oxford Economics analysis, it is estimated merchants gained \$2.13 billion in sales revenue in FY21 they would not have received without BNPL.<sup>123</sup>

**Merchant case study**

“Our company name is Power Ideas, and we empower people to save or even make money by switching to solar.”

There are two reasons why people get solar. There’s the economic benefits, and then there’s the feeling of doing something for the environment.

People are worried about their bills. They don’t want to be paying as much as they currently do for energy. Going with solar can reduce their energy bills and save them money and BNPL helps them get there.

A lot of people don’t have the initial investment for solar. By offering Brighte we help them get the finance they need to convert their roof to money.

If a customer gets finance from Brighte with \$0 down payment and gets solar panels on the roof, they can pretty much cover their energy bills with the savings. It’s a real WIN/WIN situation for customers.

When it comes to new finance options like BNPL we do need to educate our customers a little more.

Our business is more comfortable taking an application with BNPL finance than with cash because it gives our team the assurance money will be coming in at specific times. This means that we can pay our installers and our suppliers. The cash flow is important. BNPL has also played a big role in allowing us to start our business in other states as well.”

Power Ideas, NSW

<sup>121</sup> Ibid.

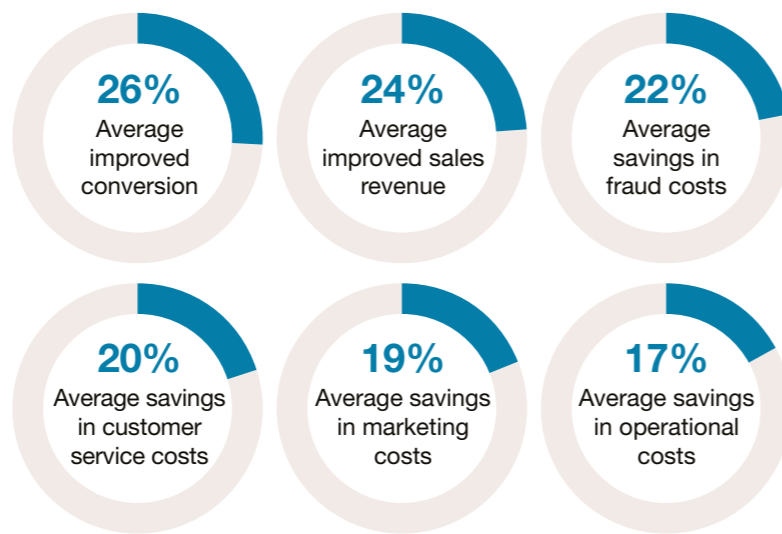
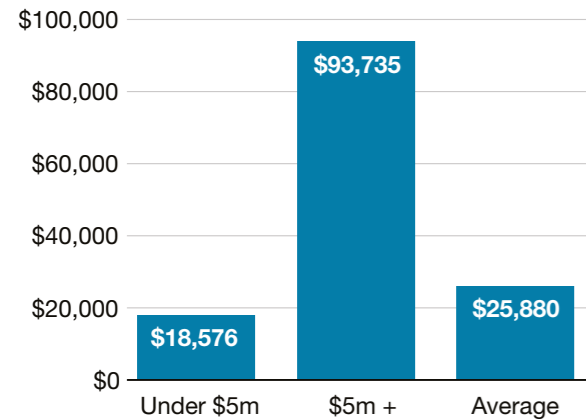
<sup>122</sup> Ibid.

<sup>123</sup> Based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022. and RFI Global survey data (December 2021 – February 2022).

**Figure 18: Merchant average benefit over the last 12 months due to BNPL acceptance**

If you had to put a dollar value on the benefit your business has received over the past 12 months as a result of accepting BNPL, what would it be?

Base: BNPL accepting merchants



**Costs for merchants accepting BNPL**

As with other payment options, there are costs associated with accepting BNPL services.

For merchants, BNPL is more than a payment processing service. There are no specific payment acceptance charges for BNPL, with the merchant fee incorporating a range of services, including cashflow support, increased sales, marketing support, advertising opportunities, access to hard-to-reach Millennial and Gen Z customers and lower fraud costs, mean merchants are incentivised to pay for BNPL services.

BNPL providers generally impose a no-surcharge rule that prevents merchants from passing on the cost of their fees to customers who use BNPL services.

As BNPL providers collect more data over time about consumers' shopping and buying behaviours, they will be able to provide a continually better service to merchants, including data insights and marketing and monitoring services, over and above traditional payments products.

While the cost to merchants of accepting BNPL is typically higher than for other electronic payment methods, such as credit and debit cards, this is offset by the range of added benefits merchants receive.

Among merchants accepting BNPL, the cost of acceptance is estimated by them to represent approximately 6 percent of their total business expenses. The cost of accepting other payment types is estimated to represent 5 percent and the cost of payment fraud is estimated to represent 3 percent.

**Merchant testimonial**

“We’ve generated higher value sales, with increased margins and therefore increased our profit.”

“On larger transactions I always put the actual Openpay deposit and repayment on the quote. I win a lot more of the higher quotes by breaking it down to repayments – you remove the fear of the big sale. Instead of a job being done in 2 tyres this month and 2 tyres next month, they get approved and we knock it out in a day.”

“We get new customers simply because we offer Openpay and lots of repeat business through it too (over 60 percent of BNPL customers are repeat customers).”

JAX Tyres & Auto services thousands of Australian members each month through a network of 88 stores across all states (excluding the Northern Territory). They specialise in tyres, wheels, servicing, batteries & mechanical services. Their offerings range from high-performance passenger cars to light truck and four-wheel drive brands.

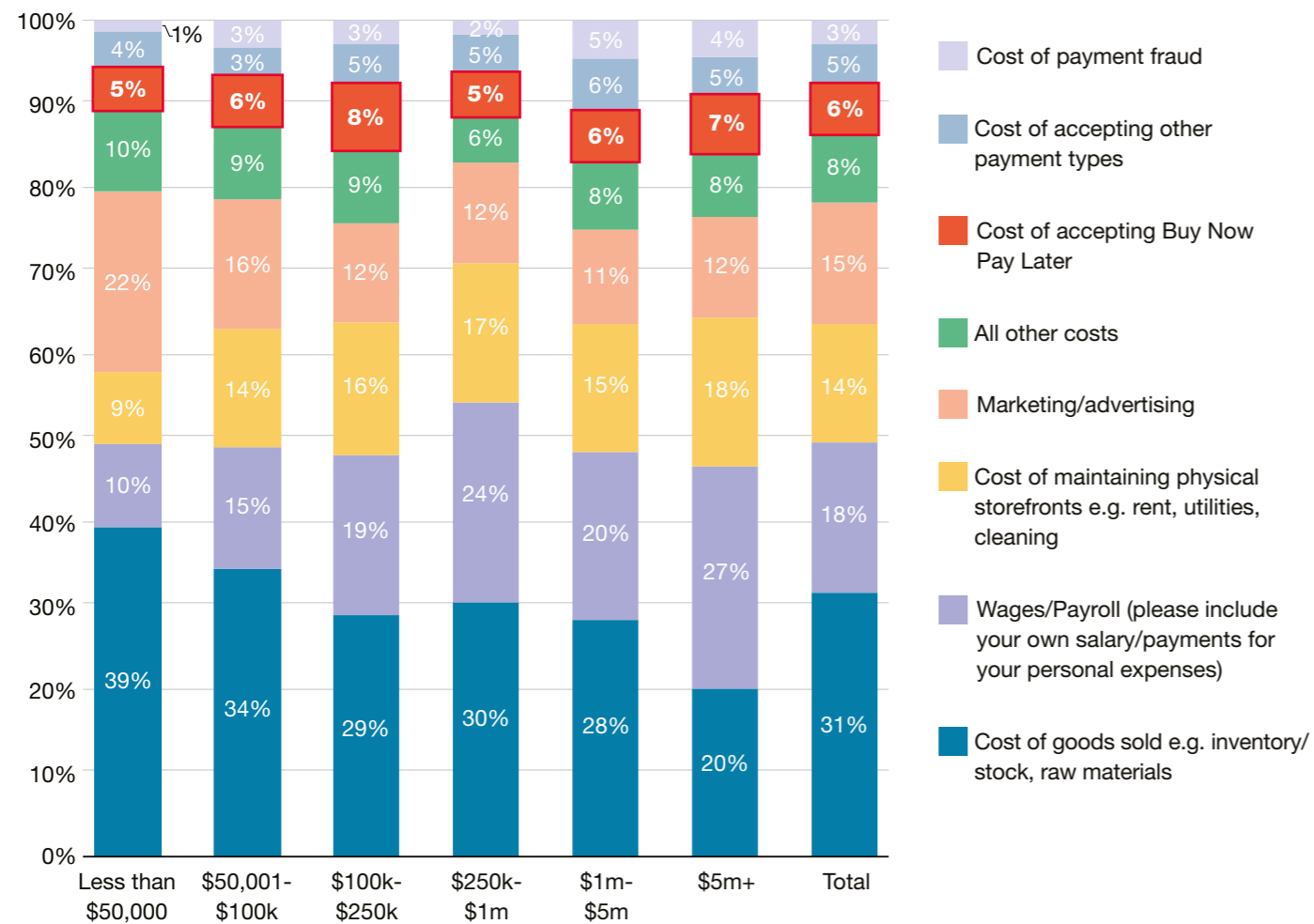
Since partnering with Openpay, one JAX Tyres & Auto franchisee has averaged well over \$500 on all BNPL transactions. Across the entire JAX Tyres & Auto network, average transactions with Openpay are up to 33 percent higher than everyday transactions.”

Jax Tyre & Auto



Choknit-Studio/shutterstock.com

Figure 19: Typical monthly business expenses by revenue for BNPL accepting merchants<sup>124</sup>



The prices merchants charge for their goods and services incorporate all the costs of running their business, and may include costs associated with accepting payments from customers, for example BNPL, credit card payments, cash handling and other costs plus costs associated with managing suppliers, marketing and advertising, salaries and wages, product and inventory-related costs, electricity and other utilities, and so on. Increases in any of these input costs can change profitability and merchants are able to exercise choice in determining whether to maintain or raise pricing or change their commercial arrangements and business inputs.

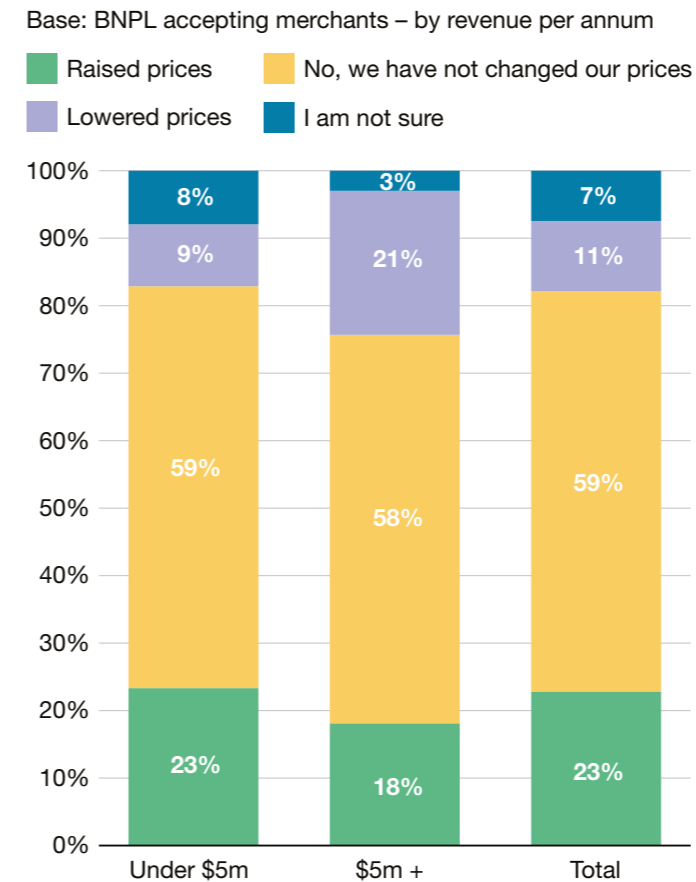
Larger businesses have different typical cost structures, being able to leverage their scale to keep many costs down, including the cost of payment acceptance, however, they tend to have higher payroll expenses.

Smaller businesses are more likely to have raised prices than decreased them, while businesses with revenue over \$5 million are more likely to have lowered them. The following summarises merchant behaviours:<sup>125</sup>

- 33 percent of BNPL accepting merchants indicated they have changed their prices as a consequence of accepting BNPL.
- 12 percent have raised prices only on products and services that tend to be purchased using BNPL.
- 11 percent have raised prices on all products and services.
- 7 percent have lowered prices on all products and services, and this is 21 percent for businesses with a turnover above \$5 million.
- 3 percent have lowered prices only on products and services that tend to be purchased using BNPL.

124 RFI Global: BNPL-accepting merchants, January 2022.  
125 RFI Global, Merchant Survey, January 2022.

Figure 20: The proportion of businesses changing prices as a consequence of accepting BNPL<sup>126</sup>



**BNPL is now seen as ‘essential’ to business success by many merchants**

BNPL drives meaningful top and bottom-line improvement for merchants, without burdening consumers with hidden costs or interest.

Many BNPL providers are continuing to build out services and tools to help merchants grow their business in addition to those already offered, for example, Afterpay’s IQ data analytics product for merchants and Zip’s affiliate and rewards program.

Two in five accepting merchants (41 percent) describe BNPL as a ‘must have’ that is essential to the success of their business, with this proportion increases with the proportion of sales that BNPL accounts for. Among merchants who are seeing 30-49 percent of their sales come through BNPL it increases to 64 percent and among merchants seeing 50 percent + of their sales come through BNPL it stands at 72 percent.<sup>127</sup>

126 Ibid.  
127 Ibid.  
128 Ibid.

**Merchant testimonial**

“Active Truth launched in 2016 with little more than a homemade website and a plastic tub containing 100 pairs of exercise tights.

Just five years later, the vibrant activewear brand has 17 staff, 250,000 customers and in 2021 opened its first temporary bricks-and-mortar space in Brisbane.

Active Truth took on Afterpay shortly after launching. “We were early adopters,” says Tucker, who notes that 50 per cent of Active Truth’s customers have used Afterpay,

Active Truth works closely with their Afterpay relationship manager. “She has helped us identify opportunities and brainstorm ideas for upcoming product launches and sale events.”

Tucker says that another key benefit of working with Afterpay is customer acquisition. Active Truth receives 10,000 referrals from Afterpay’s Shop Directory each year, and also takes part in Afterpay Day which exposes the brand to new customers. “The combination of the sale event and instalment payments provide more online shoppers with the opportunity to try our products for the first time. Having been served a seamless and positive experience, they are more likely to convert to loyalists.”

Active Truth has also joined Afterpay’s Cross-Border Trade program, which allows them to sell their products to customers in Canada, the UK and NZ without investing in complicated international set-ups. “Our experience with BNPL has been nothing but positive,” says Tucker.”

Active Truth, Brisbane

While merchants are seeing benefit in BNPL, they are not always depending on it. Recognising the benefit of the marketing support services offered by BNPL providers, 58 percent of BNPL accepting merchants have participated in promotions run by their BNPL providers. 51 percent of BNPL accepting merchants see BNPL as a ‘nice to have’ rather than a must have, which means merchants are deriving benefit from BNPL, but it is not always the difference between success and failure.<sup>128</sup>





Mountains Hunter/shutterstock.com

### Merchants believe BNPL is good for business and here to stay as a payment option

Overall, merchants recognise that BNPL is offering their customers tangible benefits. The number one reason merchants think customers use BNPL is spending management and budgeting. More than half (52 percent) of merchants believe their customers use BNPL to help them budget / manage their spending and 49 percent believe customers use BNPL because they are not charged any interest.

The following summarises accepting BNPL accepting merchant attitudes:<sup>129</sup>

- 82 percent believe “Customers now expect BNPL to be on offer”
- 72 percent agree “BNPL is a competitive industry”
- 78 percent agree “BNPL is here to stay”
- 69 percent agree “BNPL is good for Australian businesses”.

### Non-BNPL accepting merchants are also positive about BNPL<sup>130</sup>

There are positive perceptions of BNPL even among non-accepting merchants. Just under 1 in 2 non-accepting merchants believe that BNPL will be commonly used in the future and that it is innovative.

Overall, in retail 66 percent of non-accepting merchants have either accepted BNPL before, have considered it, or believe it would be relevant for their business.

The following summarises non BNPL accepting merchant attitudes:

18 percent of non-accepting merchants acknowledge that some of their customers do ask whether they accept BNPL. These merchants estimate this happens in 15 percent of cases.

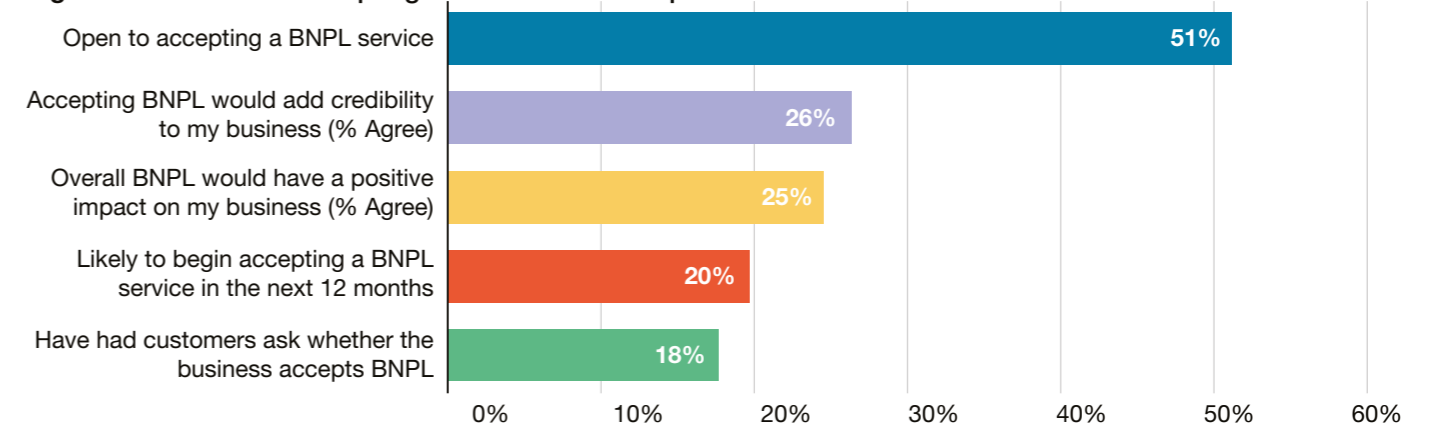
- 71 percent agree “BNPL is here to stay”
- 62 percent agree “BNPL is a competitive industry”
- 47 percent agree “BNPL is good for Australian businesses”
- 43 percent agree “Customers now expect BNPL to be on offer”

51 percent of non-accepting merchants say they are open to accepting BNPL and 20 percent of non-accepting merchants say they are likely to accept BNPL in the future.

28 percent of non-accepting merchants that have not previously accepted BNPL have considered doing so, which increases to 38 percent in the retail industry.

26 percent of non-accepting businesses say that accepting BNPL would add credibility to their business and 25 percent say it would have a positive impact on their business.

**Figure 21: Non-BNPL accepting merchants are also positive about BNPL<sup>131</sup>**

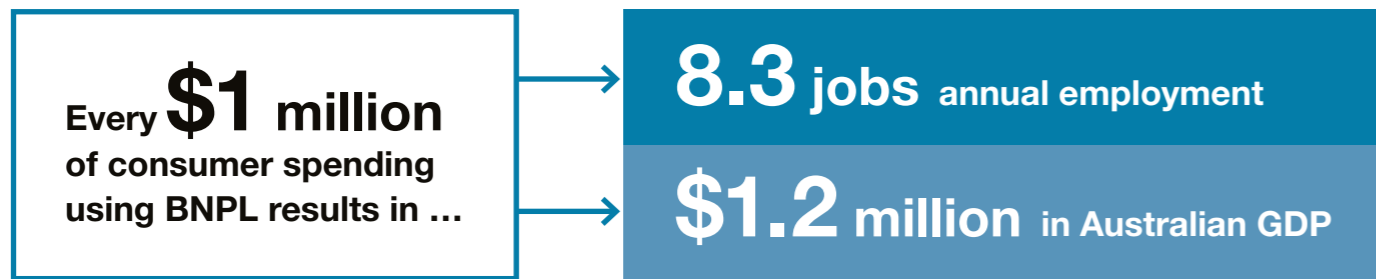


<sup>129</sup> Ibid.

<sup>130</sup> RFI Global, Merchant Survey, January 2022. n = 379.

<sup>131</sup> Ibid.

# BNPL makes a significant contribution to GDP and jobs in Australia



## BNPL contributed \$14.3 billion in Australian GDP in FY21<sup>132</sup>

Economic contribution calculations demonstrate the value of BNPL to the Australian economy. In particular, they provide an indication of the current scale of the BNPL contribution to economic activity.

Implementing BNPL has a direct and positive impact on participating merchants, enabling them to achieve business objectives, gain new revenue or operate in a way that would not otherwise be possible.

In addition, revenue attributable to BNPL acceptance has a broader economic impact.

As this revenue is spent by recipient merchants, it benefits their employees and suppliers. These benefits then flow-on to positively impact the wider economy. The total economic impact of BNPL is therefore greater than the value of the direct revenue attributable to BNPL due to these flow-on or multiplier effects.<sup>133</sup>

The true extent of the economic impact of BNPL activity can only be determined by surveying BNPL accepting merchants, and using their responses to feed an economic modelling exercise. RFI Global and BIS Oxford Economics undertook this exercise using BNPL merchant customer feedback, BNPL proprietary data, and data from a variety of secondary data sources.

The output of the economic modelling exercise quantifies the impact of BNPL on merchant revenue and operating efficiencies as well as the impact of BNPL on consumers in terms of savings from using an interest free product. In addition it demonstrates the impact of BNPL on GDP and employment at an Australian economy-wide level.

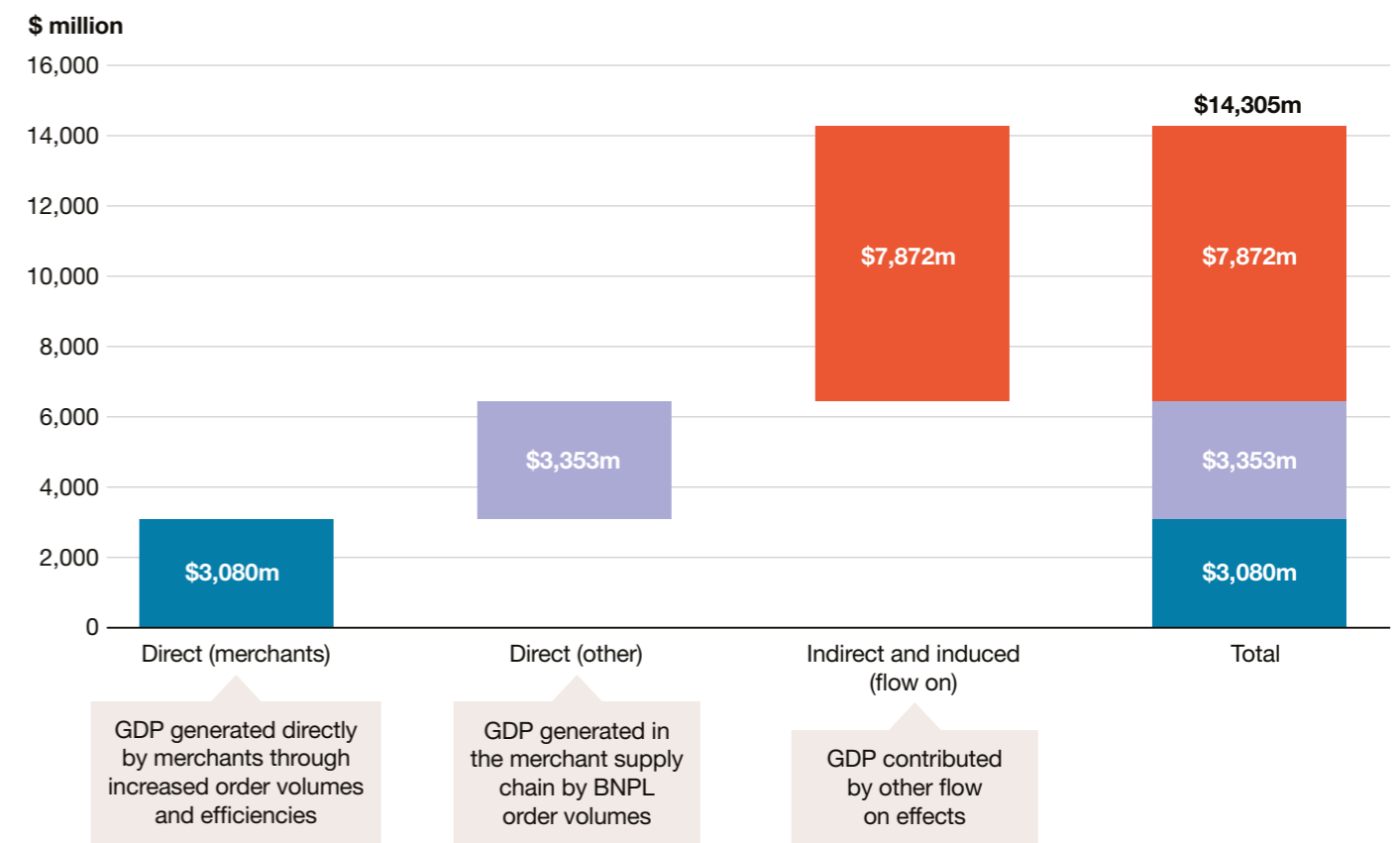
BNPL has had a notable impact on Australian GDP once multiplier effects are allowed for. Taking such effects into account, RFI Global and BIS Oxford Economics estimate that for every \$1 million spent by consumers using BNPL services in FY21, there was a corresponding \$1.2 million contribution to GDP.

Overall in FY21, BNPL contributed an estimated \$14.3 billion to GDP across the Australian economy.

<sup>132</sup> Figures in this section are based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022, and RFI Global survey data (December 2021 – February 2022).

<sup>133</sup> Note multiplier effects exist for all types of spending. The multiplier effects used here are specific to BNPL and are based on the nature of the goods and services purchased using BNPL. Indicating multiplier effects is important to show how BNPL produces ripple effects across the economy.

Figure 22: GDP impacts of BNPL purchases in Australia, FY21



## BNPL supports 99,200 local jobs<sup>134</sup>

BNPL has also made a valuable contribution to economy-wide employment. The work undertaken by RFI Global and BIS Oxford Economics estimates that every \$1 million spent by consumers using BNPL in FY21 resulted in 8.3 jobs being created or maintained across Australia.

BNPL providers and their merchant partners have helped create or maintain an estimated 99,200 local jobs in FY21 through retail purchases made using BNPL platforms. These jobs are spread across all geographies, industries and business sizes and as a result make a substantial contribution to the Australian economy. The jobs BNPL helps support can be defined in three categories: direct, indirect, and induced.

BNPL helped directly support 39,400 jobs, of which 15,500 were retail merchant jobs; that is, people employed directly by the BNPL providers' retail merchant partners to support their growing customer bases and transaction volumes. The remainder of these direct jobs were distributed among industries directly supplying goods and services to merchants which were then sold to consumers using BNPL as their payment method, including furniture, household appliances, clothing, footwear and solar panels. Direct jobs supported within the BNPL provider organisations have not been included in this analysis.

<sup>134</sup> Figures in this section are based on BIS Oxford Economics analysis using survey data collected from BNPL providers by BIS Oxford Economics and AFIA in January-February 2022, and RFI Global survey data (December 2021 – February 2022).

Figure 23: BNPL supported 99,200 jobs in Australia in FY21



Source: BIS Oxford Economics

A further 59,900 jobs were supported through a combination of indirect and induced effects. Indirect effects include jobs supported through the supply chains of merchant partners and their suppliers, including in areas such as logistics and marketing. This is reflective of online sales in general creating increased employment opportunities in these areas.

In addition, jobs were supported through extra spending in the economy by induced effects. These induced effects occur where workers employed by merchants and their suppliers spend their wages. This helps support jobs in other sectors such as hospitality, childcare and education, bookkeeping and retail.

In FY21 BNPL activity therefore resulted in 99,200 fulltime equivalent jobs being created or maintained across the economy.



# Methodology

BIS Oxford Economics (BIS OE) and RFI Global were commissioned by the Australian Finance Industry Association (AFIA) to quantify the economic impact of the Buy Now, Pay Later (BNPL) sector in Australia. During the period December 2021-February 2022, RFI Global undertook detailed surveys of the BNPL market that were completed by 1,746 consumers (of whom 1,006 were BNPL users), - i.e. “the consumer survey” and 702 merchants (of which 323 were BNPL-accepting) -i.e. the “merchant survey”. This was followed by a survey of an additional 1,006 consumers in February.

The surveys asked questions related to the following topics:

- Purchasing habits of consumers using BNPL.
- Payment alternatives to BNPL available to consumers.
- Consumer sentiment in relation to BNPL and credit card flexibility.
- Consumer sentiment in relation to BNPL attributes.
- Consumer sentiment in relation to essentials
- Key merchant motivators for BNPL acceptance
- Merchant sentiment in relation to BNPL.

Based on the survey findings, complemented, where relevant, with publicly available data from sources such as the Reserve Bank of Australia (RBA) and data from BNPL providers (Provider data) collected in January- February 2022, BIS OE has modelled the economic impact of the BNPL sector in Australia using both economic welfare and economic contribution approaches. Economic welfare measures indicate net benefits to consumers and producers (not all of which are captured in GDP). Economic contribution approaches indicate the gross contribution to the economy, typically in employment and GDP terms, as discussed later in this report. The methodology is explained in the following steps.

## 1. Quantifying BNPL consumer benefits: economic welfare (or economic efficiency) approach.

The key idea behind the economic efficiency approach is that, when consumers wish to purchase goods and services at any given time, they may face a variety of costs or barriers to their purchase (i.e. transactions costs) apart from the costs of items themselves. The introduction of BNPL holds the potential to lower transactions costs and increase economic efficiency. In short:

- The same transactions (purchases) can be carried out at a lower cost; and
- New transactions may be induced since the overall cost of consumer items has now fallen.

In addition, merchants may benefit from increased efficiencies and higher sales generated by BNPL, boosting profits. The total of cost savings to consumers (an increase in what is known as consumer surplus) and higher profits to merchants (an increase in what is known as producer surplus) net of the costs to those groups (e.g. through fees provides the net benefit to society (sometimes referred to as the social surplus) from BNPL.

## 2. Consumer benefits

Following this approach, on the consumer benefit side, the economic benefits of BNPL were quantified and divided in the following categories: avoided credit card interest and fees, value to customers from delayed payments, avoided payment surcharges, and induced demand.

- **Avoided credit card interest and fees** – The proportion of BNPL users who would have incurred credit card costs if BNPL was not available was estimated based on the RFI Global consumer survey (32 percent including an allowance for PayPal users). The costs were estimated using RBA data on average credit card interest and fees per transaction over the previous 12 months and the average proportion of credit card accounts incurring interest.<sup>135</sup> Savings were then estimated based on the repayment terms of major BNPL providers.

- **Value of delayed payments** – Users who would alternatively have used non-credit sources to pay for BNPL transactions (e.g. upfront payments using debit cards), accounting for 68 percent of the market, now gain a benefit from delaying/spacing out their payments. Consumer discount rates drawn from the international literature were used to estimate savings based on the repayment terms of major BNPL providers.<sup>136</sup>
- **Surcharges** – Results from the RFI Global merchant survey indicated the extent to which surcharges for various forms of alternative payments (e.g. credit cards) were passed on to users. An estimate was made of the costs of such surcharges to BNPL users if BNPL was not available.
- **Induced demand** – The fall in transactions costs induces consumers to increase spending on goods and services. This induced demand is estimated using the common rule of a half (i.e. half the benefits per transaction based on the combined cost savings above, net of BNPL costs).

Based on data from the BNPL signatories to the Code (who are estimated to account for nearly 95 percent of the BNPL sector), we estimate BNPL gross benefits to consumers as \$264 million in FY21. Once BNPL fees (based on Provider data) of \$164 million are deducted this produces a net benefit to consumers of \$100 million in FY21 (rounded, excluding consumer loss estimates below).

## 3. Consumer loss

According to survey data, 7.3 percent of BNPL consumers indicated they had cut back their spending on essentials and 4.4 percent indicated they had foregone spending on essentials on at least one occasion during the past 12 months, implying an element of consumer loss (or negative consumer surplus). However, at the same time, the original BNPL purchases have a benefit that must be taken into account in the assessment of net effects.

Our approach to consumer loss analysis follows that laid out by the Productivity Commission, which has examined similar issues in the past and relates to induced demand.<sup>137</sup> This ensures that to the extent BNPL generates net new spending, the consumer loss associated will likewise be “new” and not simply a transfer from the loss incurred using other payment methods. Additionally, such consumers do not give up or cut back on essentials on all their BNPL transactions during a given year - only a portion of it. The RFI Global consumer survey indicates that cutbacks or sacrifice of essentials among such consumers occurred for some 3.1 months out of the last 12 months.

Total induced demand across all consumers equates to some 14 million annual transactions in FY21. Given an average transaction value of \$151, and adjusting for the percentage of consumers who cut back or went without essentials during the year and the portion of the year in which they did so produces a figure of \$63.5 million in raw “additional sales” amongst consumers who cut back or went without essentials in FY21. However, not all such spending is a consumer loss *per se*.<sup>138</sup> As detailed data on the specific consumer demand curve in question is not available, consumer surplus loss has been estimated using the “rule of half”. Consumer loss in FY21 is therefore assessed at \$31.9 million.

## 4. Net consumer benefits

After allowance for consumer loss, the net consumer benefits of the BNPL sector (based on data from the BNPL providers) are estimated at \$68 million in FY21.

<sup>135</sup> Based on RBA Bulletin June 2021: *Bank Fees in Australia During the COVID-19 Pandemic* and RBA “Payments Data, C1 Credit and Charge Cards Seasonally Adjusted” <https://www.rba.gov.au/payments-and-infrastructure/resources/payments-data.html>

<sup>136</sup> Work by the Productivity Commission notes “direct estimates of consumers’ rate of time preference usually find it to be extremely high”. See Productivity Commission (2010) *Valuing the future: the social discount rate in cost-benefit analysis*. This publication cites empirical work indicating nominal personal discount rates ranging from 19%-45% (Warner J., Pleeter S., (2001) “The Personal Discount Rate: Evidence from Military Downsizing Programs” *AER* Vol. 91, No.1) along with work by Frederick *et. al* (2002) with rates ranging up to thousands of percent per year. An annual rate at the lower end of this range (19.3%) was adopted based on the mean value of other empirical work reported in Newell R., Siikamaki J. (2015) “Individual Time Preferences and Energy Efficiency” *NBER Working Paper 20969*.

<sup>137</sup> Productivity Commission (1999) *Australia’s Gambling Industries, Inquiry Report*. This publication lays out an approach for netting off the impact of consumer “overspending”, which has been adopted here.

<sup>138</sup> *Ibid*.

**5. Merchant benefits**

Results of RFI Global merchant survey were used to determine benefits to merchants. Economic benefits of BNPL were quantified and divided in the following categories: increased net profits and BNPL efficiency benefits, estimated as follows:

- **Increased net profits** – Induced demand means that merchant sales will increase, with gross revenues estimated at roughly \$2.13 billion given induced demand and gross BNPL sales revenues of \$11.9 billion. Netting off the costs of sales using margins estimated from the merchant survey produced a net profit estimate of \$1.06 billion.<sup>139</sup>
- **Efficiency savings** – The merchant survey indicated that some merchants had enjoyed efficiencies across their business on marketing costs, reduced fraud and lower customer service and other administrative costs as a result of implementing BNPL. The reported benefits, totalling 5.3 percent of revenues, were applied to total revenues of \$11.9 billion to derive an estimate of \$626 million.

The costs to merchants of accepting BNPL and the cost of sales for goods and services sold using BNPL have been deducted from the overall net value of BNPL to merchants for the purposes of calculating the economic value of BNPL.

Accordingly, given \$496 million in merchant fees (using an average fee per transaction estimate of just under 4.2 percent based on RBA data) we estimate total net benefits to merchants from BNPL of \$1.19 billion in FY21.

**6. Net benefits to consumers and merchants**

Adding up consumer and merchant benefits indicates a net economic welfare benefit of \$1,256 million to Australia in FY21 from the eight BNPL services that are Code signatories and account for almost 95 percent of the BNPL market by volume. There may be additional benefits from providers not included in this calculation.

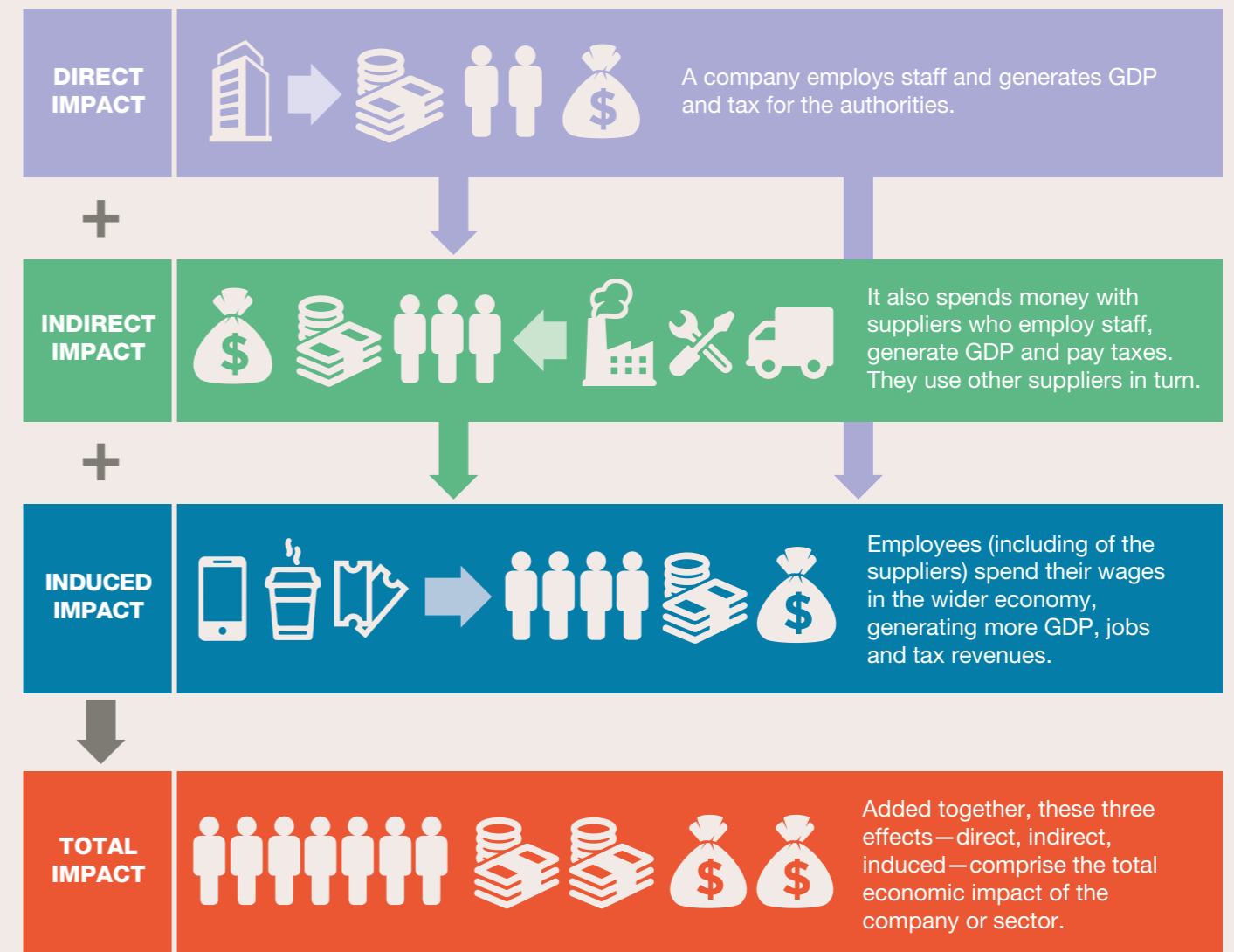
**7. Economic contribution estimates**

The economic contribution estimates focus on gross impacts of BNPL in terms of employment and GDP.

Transaction volume data from the eight providers noted above were used to derive gross sales revenues. The split of purchases across major consumable categories was estimated based on provider survey data supplied by major providers. These were then used as inputs to an Input-Output (I-O) model developed based on the most recent Australian Bureau of Statistics (ABS) Input-Output Tables (2018-19).<sup>140</sup> An adjustment was made to direct merchant employment figures to allow for the fact that BNPL produced labour efficiencies based on the proportion of online sales (78 percent) vs traditional retail sales (22 percent) as reported by merchants in the RFI Global merchant survey results.<sup>141</sup> This allowed for an estimation of the effects of sales using BNPL across the economy including a GDP contribution and jobs created or maintained.<sup>142</sup>

This totalled \$14.305 billion in GDP terms and 99,200 jobs across the economy on a headcount basis (of which 15,500 were directly employed by merchants).

**Figure 24: Calculating the economic contribution to Australia**



<sup>139</sup> We estimate the cost of goods sold by BNPL accepting merchants equated to 50 percent of gross revenues. This included costs of goods sold, labour, physical costs (including storefront utilities and cleaning), marketing costs and other operational costs. We note this independent estimate also corresponds to an estimate in Accenture (2021) *Afterpay Economic Benefit, Australia 2020*.

<sup>140</sup> ABS (2021) *Australian National Accounts: Input-Output Tables 2018-19*

<sup>141</sup> Labour productivity adjustment for non-store retail was based on non-store retail employment data reported in ABS, *Labour Force Australia*, November 2021 and online retail sales data reported in ABS *Retail Trade Australia: Online retail sales 2020-21* <https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia/latest-release>

<sup>142</sup> Technically, references to GDP in this report are in fact Gross Value Added (or GVA). GVA is most easily thought of as the value of the output produced less the value of the inputs used in that output's production. GVA is equal to GDP at what economists refer to as 'basic prices'. For purposes of simplicity, and due to its broader recognition, the term GDP is used in place of GVA throughout this report.

## About the Australian Finance Industry Association

AFIA is the only peak body representing the entire finance industry in Australia.

We represent over 150 members, including bank and non-bank lenders, neobanks, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

## About BIS Oxford Economics

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college and has become one of the world's foremost independent global advisory firms, providing best-of-class global economic and industry models, reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Oxford Economics provide an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, the company employs over 300 full-time people, including more than 200 professional economists, industry experts and business editors and has access to a contributor network of over 500 economists, analysts and journalists around the world.

In March 2017 Oxford Economics purchased BIS Shrapnel to become BIS Oxford Economics. BIS Oxford Economics has an Australian staff of over 50 who combine deep knowledge of the Australian economic environment with access to Oxford Economics' global capabilities to provide powerful insights.

## About RFI Global

RFI Global is the only global data & insights company focusing exclusively on financial services. We help clients move quickly and confidently from question to data-driven action.

RFI Global provides actionable and evidence-based insights to clients ranging from Global and Regional Banks to FinTechs, Consultancies and Regulators in 48 markets.

We equip leaders across the finance industry with global and regional insights that pinpoint trends, predict future consumer behaviour, sentiment and identify outliers. Since 2006, our data-driven insights, actionable recommendations and unparalleled intelligence remove uncertainty from the decision-making process of leading financial service providers.

This report is confidential to AFIA and may not be published or distributed without their prior written permission. The modelling and results presented here are based on information provided by third parties including RFI Global, upon which BIS Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of this data will affect the assessments and projections shown.

To discuss the report further please contact:

The Australian Finance Industry Association

Level 11, 130 Pitt Street  
Sydney, NSW 2000

**e:** [info@afia.asn.au](mailto:info@afia.asn.au)

**p:** 61 2 9231 5877





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